POWER FINANCIAL CORPORATION

ENHANCED MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATING RESULTS

ANNUAL REPORT 2003

Power Financial Corporation prepared and filed Management's Discussion and Analysis of Operating Results (MD&A) for its financial year ended December 31, 2003, dated April 2, 2004, in accordance with applicable requirements (the prior MD&A for 2003). On March 30, 2004, National Instrument 51-102 – *Continuous Disclosure Obligations* of the Canadian Securities Administrator (Instrument) came into force. Among other things, the Instrument provided for enhanced disclosure obligations for issuers, including Power Financial Corporation. Although the enhanced disclosure requirements do not apply to MD&As pertaining to fiscal year ending December 31, 2003, Power Financial Corporation has determined to provide the additional disclosure under these new requirements for the MD&A in respect of its fiscal year ended December 31, 2003, to provide enhanced disclosure and as a convenience for investors when they review the MD&A for interim periods in 2004. Accordingly, the enhanced MD&A for the financial year of Power Financial Corporation ended December 31, 2003, herein includes the prior MD&A for 2003 and in addition enhanced disclosure pursuant to the Instrument which has been included, for ease of reference, at pages 115-a to 115-d. Except for the addition of these pages, the prior MD&A for 2003 is unchanged.

POWER FINANCIAL CORPORATION

This section of the annual report is a discussion and analysis of Power Financial Corporation's (Power Financial or the Corporation) financial condition, results of operations and cash flows for the year ended December 31, 2003. Additional information relating to Power Financial may be found on SEDAR at www.sedar.com. The 2004 Annual Information Form will be available in May, 2004.

CONTENTS

APRIL 2, 2004

FORWARD-LOOKING STATEMENTS This report may include forward-looking statements about objectives, strategies and expected financial results. These statements are inherently subject to risks and uncertainties beyond the Corporation's control including, but not limited to, global economic and financial conditions, regulatory developments in Canada and elsewhere, technological developments and competition. These and other factors may cause the Corporation's actual performance to differ materially from that contemplated by forward-looking statements, and the reader is therefore cautioned not to place undue reliance on these statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATING RESULTS

OVERVIEW

Power Financial is a holding company which holds substantial interests in the financial services industry through its controlling interests in Great-West Lifeco Inc. (Lifeco) and Investors Group Inc. (Investors Group). Power Financial also holds an interest in Pargesa Holding S.A. (Pargesa) together with the Frère group of Belgium.

LIFECO

Lifeco has operations in Canada and internationally through The Great-West Life Assurance Company (Great-West Life), London Life Insurance Company (London Life) and The Canada Life Assurance Company (Canada Life, which was acquired in July 2003). In the United States, it operates through Great-West Life & Annuity Insurance Company (GWL&A) and Canada Life. All these operating companies are direct or indirect wholly owned subsidiaries of Lifeco.

In Canada, Great-West Life and its subsidiaries, London Life and Canada Life, offer a broad portfolio of financial and benefit plan solutions for individuals, families, businesses and organizations, through a network of financial security advisors, through independent brokers, and through marketing agreements with other financial institutions.

Internationally, insurance and wealth management products and services are offered through Canada Life subsidiaries, mainly in the United Kingdom, the Republic of Ireland, the Isle of Man and Germany.

In the U.S., GWL&A is a leader in providing self-funded employee health plans for businesses and in meeting the retirement income needs of employees in the public/non-profit and corporate sectors. It serves its customers nationwide through a range of health care and financial products and services marketed through brokers, consultants and group representatives and through partnerships with other financial institutions.

Great-West Life provides reinsurance through Canada Life and its subsidiaries, and through London Reinsurance Group (LRG), primarily in Canada, the United States and European niche markets.

As at December 31, 2003, Power Financial and Investors Group held 70.4 per cent and 4.2 per cent, respectively, of Lifeco's common equity, representing 65 per cent of the voting rights attached to all outstanding Lifeco voting shares.

INVESTORS GROUP INC.

Investors Group Inc., is one of Canada's premier personal financial services companies and Canada's largest manager and distributor of mutual funds and other managed asset products. The company's two operating units, Investors Group and Mackenzie Financial Corporation (Mackenzie), offer their own distinctive products and services through separate advice channels encompassing over 43,000 consultants and independent financial advisors.

Investors Group, through a network of over 3,200 consultants nationwide, provides personal financial solutions to close to one million Canadians. Clients receive comprehensive financial planning advice and service, including investment, retirement, tax and estate planning. Investors Group has top quality investment management with global operations in Winnipeg, Toronto, Montréal, Dublin and Hong Kong and offers a full range of investments through its own proprietary funds and third-party advised funds, along with a broad selection of insurance, securities, banking and mortgage products and services.

Mackenzie is a multifaceted investment management and financial services corporation, which was founded in 1967. At December 31, 2003, Mackenzie had more than $38 billion in assets under management and administration and more than one million clients. Mackenzie mutual funds are sold through relationships with nearly 40,000 independent financial advisors across Canada.

As at December 31, 2003, Power Financial and Great-West Life held 56.0 per cent and 3.5 per cent, respectively, of Investors Group's common equity.

PARGESA

The Pargesa group has substantial holdings in a selected number of major companies based in Europe, participating in media and entertainment through Bertelsmann; oil, gas and chemicals through Total; energy, water and waste services through Suez; and specialty minerals through Imerys. Power Financial, through its wholly owned subsidiary Power Financial Europe B.V., and the Frère group each hold a 50 per cent interest in Parjointco N.V., which at the end of 2003 held a 54.4 per cent equity interest in Pargesa representing 61.4 per cent of the voting rights of the company. Pargesa is a public company and more information can be found in its annual report.

Lifeco, Great-West Life, London Life and Investors Group each publish an annual report. Pargesa will publish its 2003 annual report in April 2004. Copies of these annual reports are available from the Secretary of each of these companies or from the Secretary of Power Financial. Lifeco, Great-West Life, London Life and Investors Group are reporting issuers under Canadian securities legislation and accordingly file their financial statements, related management's discussion and analysis, and other disclosure documents on www.sedar.com. Pargesa is a publicly traded company in Switzerland and publishes its financial results in accordance with Swiss legal requirements.

MAJOR DEVELOPMENTS

The major development affecting the Corporation in 2003 was the acquisition on July 10 by Lifeco of Canada Life Financial Corporation (CLFC), the parent company of Canada Life. Lifeco acquired all outstanding common shares of CLFC that it did not already beneficially own, for an aggregate transaction value of $7.2 billion. Lifeco immediately transferred the common shares of CLFC to its Canadian subsidiary, Great-West Life. CLFC is now a subsidiary of Great-West Life.

The consideration paid by Lifeco for the acquisition consisted of cash, and common and preferred shares of Lifeco.

In support of the transaction, on July 10, 2003 Power Financial and Investors Group invested $800 million and $100 million, respectively, in treasury common shares of Lifeco, through private placements. Prior to the transaction, Power Financial also purchased common shares of Lifeco and CLFC on the open market. The shares of CLFC were subsequently tendered into the acquisition, and Power Financial received common shares and preferred shares of Lifeco, as well as cash. At the end of December 2003, Power Financial's and Investors Group's equity interests in Lifeco stood at 70.4 per cent and 4.2 per cent, respectively, as already mentioned, compared with 78.5 per cent and 4.4 per cent, respectively, at the end of 2002. This decrease in ownership interest in Lifeco generated a significant dilution gain, as explained further in this report.

RESULTS OF POWER FINANCIAL CORPORATION

GENERAL This section is an overview of the results of Power Financial. To facilitate the presentation, discussion and analysis are based on condensed supplementary financial statements prepared by Power Financial's management, as in prior years. In these supplementary financial statements, Lifeco and Investors Group are accounted for using the equity method. This presentation has no impact on Power Financial's net earnings, but is intended to assist readers in their analysis of the results of the Corporation.

PRESENTATION OF RESULTS – NON-GAAP FINANCIAL MEASURES

In analysing the financial results of the Corporation, net earnings are, as in previous years, subdivided into the following components:

- operating earnings, and
- other sources of earnings, referred to in this section as other income.

Management uses these performance measures in its analysis of the ongoing financial performance of the Corporation and believes that such a presentation, which has been used for many years, provides additional meaningful information to the readers in their analysis of the Corporation's results. "Operating earnings" excludes the after-tax impact of any item which management considers to be of a non-recurring nature or which could make the year-over-year comparison of results from operations difficult, including the Corporation's share of specific items identified by Lifeco and Investors Group as well as any non-operating earnings of Pargesa.

Operating earnings and operating earnings per share, as described above, are non-GAAP financial measures that do not have a standard meaning and may not be comparable to similar measures used by other entities. Management has provided, further in this section, a reconciliation of these non-GAAP financial measures to the GAAP measures presented in the consolidated financial statements.

INCLUSION OF PARGESA'S RESULTS

Pargesa's financial statements have been adjusted by Power Financial to conform to Canadian GAAP. These adjustments consist, among other things, of eliminating the effect of amortization of goodwill.

Contribution from the European affiliate to Power Financial's earnings is based on an economic (flow-through) presentation of Pargesa's results. Pursuant to this presentation, Power Financial's share of non-operating income of Pargesa, adjusted, if necessary, as described above, is included as part of "other income" in the Corporation's financial statements.

EARNINGS SUMMARY

CONDENSED SUPPLEMENTARY STATEMENTS OF EARNINGS

DECEMBER 31 [IN MILLIONS OF DOLLARS, EXCEPT PER SHARE AMOUNTS]	2003		2002		
	TOTAL [1]	PER SHARE	TOTAL [1]	PER SHARE	% CHANGE
Contribution from subsidiaries and affiliate to operating earnings	1,294		1,087		
Results from corporate activities	(33)		(13)		
Operating earnings	1,261	3.43	1,074	2.97	15.5
Other income	762	2.19	(86)	(0.25)	
Net earnings	2,023	5.62	988	2.72	

[1] Before dividends on preferred shares, which amounted to $67 million in 2003 [$45 million in 2002].

OPERATING EARNINGS

Operating earnings of Power Financial for 2003 were $1,261 million or $3.43 per share, compared with $1,074 million or $2.97 per share in 2002. This represents a 15.5 per cent increase on a per share basis.

SHARE OF OPERATING EARNINGS FROM SUBSIDIARIES AND AFFILIATE The contribution from Power Financial's subsidiaries and affiliate to operating earnings totalled $1,294 million in 2003, as against $1,087 million in 2002, an increase of $207 million or 19 per cent. This reflects primarily an increase in the contribution from Lifeco, as well as Investors Group and Parjointco.

The contribution from Lifeco to Power Financial's operating earnings grew from $719 million in 2002 to $894 million in 2003. Earnings per share of Lifeco increased by 18 per cent in 2003, before the impact of the restructuring charges incurred in connection with the acquisition of Canada Life (whose results have been included from July 10, 2003; see Note 16 to the financial statements). The increase also includes the additional contribution provided by the shares of Lifeco acquired during the year, primarily in connection with the private placements described earlier herein.

Investors Group contributed $312 million to operating earnings in 2003, compared with $288 million in 2002, reflecting an increase of 8.6 per cent in Investors Group's earnings per share, excluding the impact in 2003 of the reversal of a provision for restructuring costs, of an increase in the future income tax liability related to intangible assets, and of the dilution gain recorded by Investors Group in connection with the Canada Life transaction.

Parjointco, which holds Power Financial's interest in Pargesa, contributed $88 million to the Corporation's operating earnings in 2003, as against $80 million in 2002. The impact of the reversal of goodwill amortization expense included in Pargesa's results represented approximately $0.11 per share in 2003 and $0.10 in 2002. These adjustments relate primarily to Pargesa's indirect share of goodwill amortization recorded by Bertelsmann.

Readers are referred to the sections on Lifeco, Investors Group and Pargesa in this report for further discussion of the operating results of these entities.

RESULTS FROM CORPORATE ACTIVITIES, which represent the contribution of Power Financial to operating earnings, were a charge of $33 million in 2003, compared with a charge of $13 million in 2002. Corporate results include income from investments, interest and operating expenses, depreciation and income taxes.

The variance in results from corporate activities is primarily due to an increase in interest expense as a result of the issuance, in March 2003, of the $250 million debentures and an increase in operating expenses, partly offset by higher income from investments resulting from a higher average cash balance and rates of return in 2003, compared with 2002.

Preferred share dividends, which are included for the purpose of calculating operating earnings per share, were $67 million in 2003, as against $45 million in 2002. This increase reflects the impact of the issuance by Power Financial of Series F, First Preferred Shares in July 2002, Series H in December 2002, and Series I and J in March 2003, net of the redemption of the Corporation's Series B, First Preferred Shares in May 2003.

OTHER INCOME

Other income amounted to $762 million or $2.19 per share in 2003, compared with a charge of $86 million or $0.25 per share in 2002.

Other income in 2003 consisted primarily of a net dilution gain of $888 million (calculated on an equity basis) recorded in connection with the acquisition of CLFC by Lifeco, as a consequence of the net decrease of Power Financial's equity ownership in Lifeco due to the issuance of common shares to third parties at a price which was significantly higher than Lifeco's book value per share.

Also included in other income are:

- Power Financial's share of after-tax restructuring charges recorded by Lifeco in 2003 in connection with the acquisition of CLFC;
- Power Financial's share of special items recorded by Investors Group. In 2003, Investors Group recorded (i) a partial reversal, for an amount of $16 million after tax ($25 million before tax) of the provision for restructuring costs that was recorded in 2001 in connection with the acquisition of Mackenzie, and (ii) a charge of $25 million arising from increases in Ontario income tax rates and their effect on the future income tax liability related to indefinite life intangible assets;
- the Corporation's share of non-operating earnings derived from Pargesa; and
- other non-recurring items recorded at Power Financial, consisting principally of an increase in the provision to cover estimated dilution losses that would result from the future exercise of stock options granted by subsidiaries, as previously disclosed in the interim report for the third quarter of 2003.

Other income in 2002 consisted primarily of Power Financial's share of non-operating items recorded within the Pargesa group and, in particular, the impact of the €1.3 billion reduction recorded by Bertelsmann in the carrying value of its investment in Zomba.

NET EARNINGS

Net earnings, which include operating earnings and other income, were $2,023 million or $5.62 per share in 2003, compared with $988 million or $2.72 per share in 2002.

RECONCILIATION WITH FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2003
[IN MILLIONS OF DOLLARS, EXCEPT PER SHARE AMOUNTS]

	OPERATING EARNINGS	OTHER INCOME	TOTAL
Earnings before share of earnings of affiliate, other income, income taxes and non-controlling interests	2,698		2,698
Share of earnings of affiliate	88		88
Earnings before other income, income taxes and non-controlling interests	2,786		2,786
Other income		783	783
Earnings before income taxes and non-controlling interests	2,786	783	3,569
Income taxes	827	23	850
Non-controlling interests	698	(2)	696
Net earnings	**1,261**	**762**	**2,023**
Preferred share dividends	(67)		(67)
Attributable to common shareholders	1,194	762	1,956
Per share	**3.43**	**2.19**	**5.62**

FOR THE YEAR ENDED DECEMBER 31, 2002
[IN MILLIONS OF DOLLARS, EXCEPT PER SHARE AMOUNTS]

	OPERATING EARNINGS	OTHER INCOME	TOTAL
Earnings before share of earnings of affiliate, other income, income taxes and non-controlling interests	2,203		2,203
Share of earnings of affiliate	80		80
Earnings before other income, income taxes and non-controlling interests	2,283		2,283
Other income		(85)	(85)
Earnings before income taxes and non-controlling interests	2,283	(85)	2,198
Income taxes	749		749
Non-controlling interests	460	1	461
Net earnings	**1,074**	**(86)**	**988**
Preferred share dividends	(45)		(45)
Attributable to common shareholders	1,029	(86)	943
Per share	**2.97**	**(0.25)**	**2.72**

FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

CONDENSED SUPPLEMENTARY BALANCE SHEET

DECEMBER 31 [IN MILLIONS OF DOLLARS]	2003	2002	2003	2002
	CONSOLIDATED BASIS		EQUITY BASIS[1]	
Cash and cash equivalents	3,646	2,437	215	753
Investments	81,060	51,119	8,577	6,392
Other assets	21,254	14,763	79	62
Total	105,960	68,319	8,871	7,207
Actuarial liabilities	66,999	44,508		
Other liabilities	19,668	10,022	334	202
Long-term debt	4,198	2,313	400	150
	90,865	56,843	734	352
Non-controlling interests	6,958	4,621		
Shareholders' equity				
Preferred shares	1,250	1,050	1,250	1,050
Common shareholders' equity	6,887	5,805	6,887	5,805
Total	105,960	68,319	8,871	7,207
Consolidated assets and assets under administration	242,333	172,815		

[1] Condensed supplementary balance sheet with Lifeco and Investors Group accounted for using the equity method.

CONSOLIDATED BASIS

The variance of $38 billion in total assets in 2003 is primarily due to the impact of the acquisition of Canada Life by Lifeco, including related goodwill and intangible assets, for $5 billion.

Long-term debt increased from $2,313 million to $4,198 million on a consolidated basis, reflecting in particular (i) the inclusion of Canada Life long-term debt, and (ii) the impact of additional long-term debt resulting from the new financings made by Lifeco, Investors Group and Power Financial in 2003, net of repayments of $403 million.

The variance in non-controlling interests reflects in particular the issuance of preferred shares by Lifeco, net of redemptions of existing preferred shares, and the increase in non-controlling interests resulting from the decrease in Power Financial's ownership in Lifeco.

Assets under administration include segregated funds of Lifeco and Investors Group's mutual fund assets, at market values. The market value of Lifeco's segregated funds was $62 billion in 2003, compared with $36 billion in 2002; the increase in 2003 includes the impact of the acquisition of Canada Life, which added $24 billion in segregated fund assets. Investors Group's mutual fund assets at market value, including those of Mackenzie, were $75 billion in 2003 and $68 billion in 2002.

For more details about Lifeco's and Investors Group's assets and liabilities, readers are referred to the corresponding subsections of this MD&A, as well as to the Notes to the Corporation's financial statements.

EQUITY BASIS

Under this presentation, Lifeco and Investors Group are accounted for using the equity method. This presentation has no impact on Power Financial's shareholders' equity, but is intended to assist readers in isolating the contribution of Power Financial as the parent company to assets and liabilities.

CASH AND CASH EQUIVALENTS held by Power Financial amounted to $215 million at the end of 2003, compared with $753 million at the end of 2002. The decrease reflects primarily the impact of the investment in Lifeco common shares, partly offset by the net proceeds from new financings made in 2003. In aggregate, Power Financial invested $1,021 million in common shares of Lifeco, including $800 million through private placement (excluding the $100 million investment made by Investors Group).

These investments were financed from existing cash as well as from the proceeds of the issue by the Corporation in March 2003 of $250 million of 30-year debentures, and of $200 million of Series I (perpetual) and $150 million of Series J (10-year soft-retractable) preferred shares. In addition, in May 2003, the Corporation redeemed its outstanding Series B, First Preferred Shares for an aggregate cash consideration of $153 million, including $3 million in accrued dividends.

In the course of managing its own cash and cash equivalents, the Corporation may invest in foreign currencies and thus be exposed to fluctuations in exchange rates. In order to protect against such fluctuations, the Corporation enters into currency-hedging transactions from time to time with highly rated financial institutions. At December 31, 2003, 98 per cent of the $215 million of cash and cash equivalents were denominated in Canadian dollars or in foreign currencies combined with currency hedges.

INVESTMENTS represent principally the carrying value of Power Financial's investments in Lifeco, Investors Group and Parjointco. The carrying value of the Corporation's investments in its subsidiaries and affiliate increased by $2,185 million in 2003. This increase primarily reflects:

[i] the investments made by the Corporation in common shares of Lifeco;

[ii] the impact of the dilution gain recorded in connection with the acquisition of CLFC by Lifeco;

[iii] Power Financial's share of net earnings from its subsidiaries and affiliate, net of dividends received; and

[iv] the net negative variation in foreign currency translation adjustments, related principally to the Corporation's indirect investments in GWL&A and Pargesa. At the end of 2003, the Swiss franc and the U.S. dollar exchange rates were 9 and 18 per cent lower, respectively, than at the end of 2002.

LONG-TERM DEBT issued by Power Financial amounted to $400 million at the end of 2003, compared with $150 million a year earlier, as a result of the issuance in March 2003 of the $250 million 6.90% 30-year debentures.

CASH FLOWS

CONSOLIDATED CASH FLOWS

On a consolidated basis, cash and cash equivalents increased from $2.4 billion to $3.6 billion in 2003.

FOR THE YEARS ENDED DECEMBER 31 [IN MILLIONS OF DOLLARS]	2003	2002
Cash flow from operating activities	2,534	1,752
Cash flow from financing activities	747	(936)
Cash flow from investing activities	(2,072)	(499)
Increase in cash and cash equivalents	1,209	317
Cash and cash equivalents, beginning of year	2,437	2,120
Cash and cash equivalents, end of year	3,646	2,437

Cash flows from operating activities in 2003 reflect in particular the inclusion of Canada Life operations since July 10, 2003.

Included in cash flows from financing activities are dividends paid and the proceeds from the various financings (excluding shares issued to CLFC shareholders), net of repayments or redemptions of debt and preferred shares. In 2003, this included:

- proceeds from the issuance in March by Power Financial of preferred shares, Series I and J, and long-term debt for an aggregate amount of $600 million, net of $150 million representing the cash consideration paid by Power Financial in connection with the redemption of First Preferred Shares, Series B;
- proceeds from the issuance by Lifeco of $1,196 million of long-term debt, net of debt repayments for $128 million, and redemption of preferred shares for $102 million; and
- proceeds from the issuance by Investors Group of $300 million of long-term debt, net of repayments for $275 million.

Cash flows from investing activities included in 2003 the cash effect of the acquisition of Canada Life by Lifeco, for a net amount of $1,826 million.

CORPORATE CASH FLOWS

Corporate cash flows represent cash flows of Power Financial when Lifeco and Investors Group are accounted for on an equity basis.

Power Financial is a holding company. As such, corporate cash flows from operations are principally made up of dividends received from its subsidiaries and affiliate and income from investments, less operating expenses, interest expense and income taxes. The payment of dividends by Lifeco, which is also a holding company, in turn depends on sufficient funds received from its principal subsidiaries, which are subject to restrictions set out in relevant insurance and corporate laws and regulations which require that certain solvency and capital standards be maintained. Certain operations of Investors Group also have to comply with liquidity requirements established by regulatory authorities.

FOR THE YEARS ENDED DECEMBER 31 [PER SHARE]		2003	2002
	CURRENT ANNUALIZED DIVIDEND[1]	DIVIDEND	DIVIDEND
Great-West Lifeco Inc. [C$]	1.29	1.125	0.945
Investors Group Inc. [C$]	1.10	0.99	0.86
Pargesa Holding S.A. – bearer share [SF]	92	86	80

[1] Lifeco and Investors Group: based on quarterly dividends declared in January 2004.
Pargesa dividend to be approved at its May 2004 Annual General Meeting.

In 2003, dividends declared on the Corporation's common shares amounted to $1.205 per share, compared with $1.040 per share in 2002, an increase of 16 per cent. The holders of common shares of the Corporation benefited from increased dividends from the subsidiaries and affiliate.

SHAREHOLDERS' EQUITY

Shareholders' equity at the end of 2003 was $8,137 million, compared with $6,855 million at the end of 2002.

The increase in shareholders' equity is primarily due to:

- a net increase of $200 million in preferred shares outstanding, including gross proceeds from the issuance of Series I and J First Preferred Shares in March 2003 for an aggregate $350 million, less $150 million of Series B, First Preferred Shares which were redeemed in May 2003;
- a $1,526 million increase in retained earnings; and
- a $452 million negative net variation in foreign currency translation adjustments, relating primarily to the Corporation's indirect investments in GWL&A and Pargesa, as well as to the cross-currency swap in connection with the $150 million debentures.

At the end of 2003, eight distinct series of first preferred shares were outstanding, for an aggregate amount of $1,250 million. Series A, D, E, F, H, and I are perpetual preferred shares, representing an aggregate amount of $950 million (of which $850 million are non-cumulative). Each of these series is redeemable in whole or in part at the option of the Corporation from specific dates. The balance of $300 million are non-perpetual preferred shares, which are non-cumulative. For more details about the preferred shares issued by Power Financial, readers are referred to Note 12 to the financial statements.

Excluding first preferred shares, common shareholders' equity amounted to $6.9 billion at year-end 2003, compared with $5.8 billion at year-end 2002. Book value per common share was $19.77 at the end of 2003, compared with $16.73 a year earlier.

In 2003, the Corporation issued 1,560,000 common shares (2002 – 155,000) under the terms of the Employee Stock Option Plan, resulting in an increase in stated capital of $8 million (2002 – $1 million).

RATINGS OF THE CORPORATION

AS AT DECEMBER 31, 2003

	DOMINION BOND RATING SERVICE	STANDARD & POOR'S RATINGS SERVICE[1]
Senior debentures	A [high]	A+
Preferred shares		
Cumulative	Pfd 2 [high]	Canadian scale P1 [low] Global scale A–
Non-cumulative	Pfd 2 [high] n	Canadian scale P1 [low] Global scale A–

[1] Ratings are on a negative outlook.

In February 2003, at the time the proposed acquisition of CLFC by Lifeco was initially announced, both Dominion Bond Rating Service (DBRS) and Standard & Poor's Ratings Service (S&P) issued press releases in which they announced that they proposed changes to the ratings of Power Financial upon the closing of the acquisition. Following the closing, on July 10, 2003, DBRS lowered its ratings by one notch, with a stable trend. S&P lowered all of the ratings which had been placed on "Credit Watch" in February 2003 by one notch. At the same time, S&P removed these ratings from "Credit Watch". S&P has assigned a counterparty credit rating of A+ and given its ratings a "negative outlook".

Readers are referred to the respective sections concerning Lifeco and Investors Group for more information on the ratings of these companies.

NEW ACCOUNTING POLICIES

- Costs associated with exit and disposal activities

In March 2003, the CICA issued Emerging Issues Committee (EIC) Abstract EIC-135 Accounting for Costs Associated with Exit and Disposal Activities (Including Costs Incurred in a Restructuring) for restructurings initiated after March 31, 2003. The standard replaces EIC-60 Liability Recognition for Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring) and requires recognition of integration and restructuring costs in income when they are incurred. Please refer to Note 16 for the impact of this standard on the financial statements of the Corporation.

SUMMARY OF CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in conformity with accounting principles generally accepted in Canada (GAAP) requires management to adopt accounting policies and to make estimates and assumptions that affect amounts reported in the Consolidated Financial Statements. The major critical accounting policies and related judgments underlying the Corporation's financial statements are summarized below. In applying these policies, management makes subjective and complex judgments that frequently require estimates about matters that are inherently uncertain. Many of these policies are common in the insurance and other financial services industries; others are specific to the Corporation's businesses and operations.

(The Corporation's general policies are described in detail in Note 1 of the Consolidated Financial Statements.)

ACTUARIAL LIABILITIES Actuarial liabilities represent the amounts required, in addition to future premiums and investment income, to provide for future benefit payments, policyholder dividends, commission and policy administrative expenses for all insurance and annuity policies in force with Lifeco. The Appointed Actuaries of Lifeco's subsidiary companies are responsible for determining the amount of the actuarial liabilities to make appropriate provision for the obligations to policyholders. The Appointed Actuaries determine the actuarial liabilities using generally accepted actuarial practices, according to the standards established by the Canadian Institute of Actuaries. The valuation uses the Canadian Asset Liability Method. This method involves the projection of future events in order to determine the amount of assets that must be set aside currently to provide for all future obligations and involves a significant amount of judgment.

(Additional details regarding these adjustments and estimations can be found in Note 8 of the Consolidated Financial Statements.)

INCOME TAXES The Corporation has substantial future income tax assets. The recognition of future tax assets depends on management's assumption that future earnings will be sufficient to realize the deferred benefits. The amount of the asset recorded is based on management's best estimate of the timing of the reversal of the asset.

EMPLOYEE FUTURE BENEFITS Accounting for pension and other post-retirement benefits requires estimates of future returns on plan assets, expected increases in compensation levels, trends in health care costs, as well as the appropriate discount rate for accrued benefit obligations.

(These estimates are discussed in Note 17 of the Consolidated Financial Statements.)

FUTURE ACCOUNTING CHANGES

- Stock-based compensation and other stock-based payments

Effective January 1, 2004, *CICA Handbook* – Section 3870, Stock-based Compensation and Other Stock-based Payments was amended to require expense treatment for all stock-based compensation and payments. Previously, the standard encouraged, but did not require, the use of a fair value-based method to account for stock-based transactions with employees. On January 1, 2004, the Corporation adopted the amended standard retroactively without restatement of prior periods for all stock-based compensation and payments to employees. The impact of adopting the new recommendations in the Corporation's consolidated financial statements will not be material.

- Hedging relationships

Accounting Guideline 13 – Hedging Relationships (AcG-13) specifies the circumstances in which hedge accounting is appropriate, including the identification, documentation, designation and effectiveness of hedges and the discontinuance of hedge accounting. Subsequent to January 1, 2004, derivatives that do not qualify for hedge accounting will be carried at fair value on the consolidated balance sheets, and changes in fair value will be recorded in the consolidated statements of income. Non-qualifying derivatives will continue to be utilized on a basis consistent with the risk management policies of the Corporation and will be monitored by the Corporation for effectiveness as economic hedges, even if the specific hedge accounting requirements of AcG-13 are not met. The Corporation has reassessed its hedging relationships as at January 1, 2004 and has determined that the impact of adopting the new recommendation will not be material.

OFF-BALANCE SHEET ARRANGEMENTS

The following should be read in conjunction with the Notes to the financial statements.

- Derivative financial instruments

In the course of their activities, the Corporation and its subsidiaries use derivative financial instruments. When using such derivatives, they only act as limited end-users and not as market-makers in such derivatives.

Transactions using derivative products may be implemented for hedging purposes, for asset/liability, interest rate, equity market price or foreign currency exchange management, or to synthetically replicate an investment for those situations where it is deemed to be more effective from a cost and flexibility perspective to do so, as compared to directly investing in a particular type of investment.

The Corporation and its subsidiaries have each established strict operating policies and processes, which in particular aim at:

- prohibiting the use of derivative instruments for speculative purposes;
- documenting transactions and ensuring their consistency with risk management policies;
- demonstrating the effectiveness of the hedging relationships; and
- monitoring of the hedging relationship.

The use of derivatives is monitored and reviewed on a regular basis by senior management of these companies.

Derivative financial instruments used by the Corporation and its subsidiaries include in particular:

- interest-rate swaps and swaptions;
- equity index swaps and futures;
- forward sales contracts;
- equity options;
- currency options;
- cross-currency swaps;
- foreign exchange forward contracts; and
- credit derivatives.

As at December 31, 2003, the notional amount of outstanding derivative contracts entered into by the Corporation and its subsidiaries was $9,723 million (2002 - $7,419 million), with a maximum credit risk and a total fair value of $465 million and $283 million respectively (2002 - $130 million and $(86) million). Maximum credit risk represents the current market value of the instruments which were in a gain position only; total fair value represents the total net amount at which an instrument could be bought or sold in a current transaction between willing parties.

See Note 1 to the financial statements for more details on the type of derivative financial instruments used by the Corporation and the related hedging strategies.

- Securitizations

In the ordinary course of business, Investors Group enters into securitization transactions which serve as a source of funding for a variety of lending transactions. More specifically, Investors Group periodically transfers mortgages and personal loans to commercial paper conduits that in turn issue securities to investors. Investors Group retains servicing responsibilities and certain elements of recourse with respect to credit losses on transferred loans. Investors Group also transfers NHA-insured mortgages through the issuance of mortgaged-backed securities.

During the course of the year, Investors Group securitized principal amounts of $128 million, recognizing a net gain of $1 million on these transactions. As at December 31, 2003, the total value of securitized loans amounted to $669 million, while Investors Group's retained interests in these assets had a fair value of approximately $13 million.

- Guarantees

In the normal course of operations, the Corporation and its subsidiaries may enter into agreements which may contain features that meet the definition of a guarantee, and while the maximum amount of the guarantee cannot always be determined given the nature of the future events which may or may not occur, any such arrangements that are material have been previously disclosed by the Corporation.

- Commitments

SYNDICATED LETTERS OF CREDIT For certain types of reinsurance business written in the United States, clients are required, pursuant to their insurance laws to obtain letters of credit issued on LRG's behalf from approved banks in order to further secure LRG's obligations under the reinsurance contracts. At December 31, 2003, LRG had syndicated letters of credit facilities in place providing US$1,100 million of capacity. For more details on these syndicated letters of credit (which meet the definition of guarantees under AcG-14), please refer to Note 23 to the financial statements.

CROWN LIFE ACQUISITION AGREEMENTS As part of the 1999 acquisition by CLFC of the majority of Crown Life Insurance Company's (Crown Life) insurance operations, CLFC has the option, or may be obligated, to acquire the common shares of Crown Life and, through assumption reinsurance, the remaining insurance business of Crown Life at any time after January 1, 2004, subject to certain conditions, in which case CLFC would receive assets with a value equal to the liabilities assumed. The purchase price for the shares would be the fair value of the assets backing Crown Life's common shareholders' equity.

- Transactions with related parties

In the normal course of business Power Financial has access to facilities and properties held by its parent company, Power Corporation. Power Financial also shares administrative services and human resources with Power Corporation. Power Financial bears its share of the associated costs.

SUBSEQUENT EVENTS

- On January 14, 2004, Lifeco announced that Jefferson-Pilot Corporation had agreed to purchase the U.S. group business of its indirect subsidiary, Canada Life, subject to regulatory approvals. The Canada Life U.S. group business consists of group life, disability and dental insurance, and represents approximately US$340 million in annual premium (see also page 92).
- On February 25, 2004, Investors Group announced that it had entered into agreements with IPC Financial Network Inc. (IPC) and certain IPC shareholders to acquire, by way of a plan of arrangement, all of the common shares of IPC at a price of $1.95 per share. Under the terms of the agreements, IPC shareholders will be entitled to receive, at their option, either (i) $1.95 in cash, or (ii) $0.975 in cash and 0.02973 of a common share of Investors Group Inc. for each IPC common share. Shareholders owning or controlling 54 per cent of IPC's outstanding shares have agreed to irrevocably support the transaction. IPC, which was founded in 1996, is the fifth largest financial planning organization in Canada, with $7.1 billion of client assets under management and administration including $1.2 billion of mutual fund assets under management. It serves the financial needs of Canadians through over 600 financial advisors. IPC will be operated as a separate entity and will be managed by its current leadership team. Subject to regulatory and shareholder approval, the transaction is expected to be completed in May 2004.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

[IN MILLIONS OF DOLLARS, EXCEPT PER COMMON SHARE AMOUNTS]	2003	2002	% CHANGE
FOR THE YEARS ENDED DECEMBER 31			
Premiums:			
Life insurance, guaranteed annuities and insured health products	12,441	11,187	11
Self-funded premium equivalents [ASO contracts] [1]	8,218	9,564	(14)
Segregated fund deposits: [1]			
Individual products	3,034	2,293	32
Group products	4,510	4,382	3
Total premiums and deposits	28,203	27,426	3
Bulk reinsurance – initial ceded premiums [2]	(5,372)	–	
Net premiums and deposits	22,831	27,426	
Fee and other income	1,831	1,807	1
Paid or credited to policyholders [2]	8,346	12,593	(34)
Net income attributable to:			
Preferred shareholders	41	31	32
Common shareholders before restructuring costs	1,215	931	31
Restructuring costs [3]	20	–	
Common shareholders	1,195	931	28
PER COMMON SHARE			
Basic earnings before restructuring costs	2.998	2.530	18
Restructuring costs after tax [3]	0.048	–	
Basic earnings after restructuring costs	2.950	2.530	17
Dividends paid	1.125	0.945	19
Book value per common share	16.72	11.68	43
RETURN ON COMMON SHAREHOLDERS' EQUITY			
Net income before restructuring costs	20.7%	22.9%	
Net income	20.4%	22.9%	
AT DECEMBER 31			
Total assets	97,451	60,071	62
Segregated fund assets [1]	61,699	36,048	71
Total assets under administration	159,150	96,119	66
Capital stock and surplus	8,590	4,708	82

[1] Segregated fund deposits and self-funded premium equivalents (ASO contracts)
The financial statements of a life insurance company do not include the assets, liabilities, deposits and withdrawals of segregated funds or the claims payments related to administrative services only (ASO) Group health contracts. However, Lifeco does earn fee and other income related to these contracts. Both segregated fund and ASO contracts are an important aspect of the overall business of the company and should be considered when comparing volumes, size and trends.

[2] During 2003, as part of a risk-rebalancing program related to the acquisition of CLFC, a number of bulk reinsurance ceded contracts were executed by Great-West Life and GWL&A with third parties. Premiums related to the initial cession of in-force policy liabilities were $5,372 million.

[3] Following the acquisition of CLFC by Lifeco, a plan was developed to restructure and exit selected operations of CLFC. Costs of $497 million before tax are expected to be incurred as a result, including approximately $412 million that was recognized as part of the purchase equation of CLFC, and $85 million to be charged to income as it is incurred. Of this latter amount, shareholder net income for the year ended December 31, 2003 includes restructuring costs of $20 million after tax or $0.048 per common share. Net income, basic earnings per common share and return on common shareholders' equity are presented before restructuring as a measure of earnings performance, excluding restructuring costs related to the acquisition of CLFC, and incurred during the period – refer to non-GAAP financial measures.

HIGHLIGHTS OF OPERATING RESULTS

For the year ended December 31, 2003, net income attributable to common shareholders, excluding restructuring costs, was $1,215 million, an increase of 31 per cent, compared with $931 million for 2002, or $2.998 per common share, an increase of 18.5 per cent, compared with $2.530 per common share for 2002. Net income, after restructuring costs, attributable to common shareholders was $1,195 million or $2.950 per common share for 2003. The results of CLFC are included from July 10, 2003.

Total premiums and deposits, before deduction of initial ceded premiums of $5.4 billion related to bulk reinsurance of a block of in-force liabilities, increased 3 per cent overall. Within this result, risk-based products were up 11 per cent over 2002, and fee-based products down 3 per cent. Fee and other income was up 1 per cent from 2002.

SOURCE OF NET INCOME

Consolidated net income of Lifeco consists of the net operating earnings of Great-West Life and GWL&A, including Canada Life from the date of acquisition, together with Lifeco's corporate results.

Lifeco's major reportable segments are:

- CANADA/EUROPE made up of the Canada/Europe operations of Great-West Life, including London Life and Canada Life, as well as applicable allocations of Lifeco corporate activities.
- UNITED STATES made up of the operations of GWL&A and the United States branch business of Great-West Life, including the United States business of Canada Life, as well as any applicable allocations of Lifeco corporate activities.
- LIFECO CORPORATE made up of the holding company activities of Lifeco not associated with the major business units.

The following table shows the net income attributable to common shareholders by Lifeco's major reportable segments:

NET INCOME ATTRIBUTABLE TO COMMON SHAREHOLDERS

FOR THE YEARS ENDED DECEMBER 31 [IN MILLIONS OF DOLLARS]	2003	2002	% CHANGE
CANADA/EUROPE SEGMENT			
Total business units	693	461	50
Allocation of Lifeco corporate	(64)	(20)	
Total Canada/Europe segment	629	441	43
UNITED STATES SEGMENT			
Total business units	375	321	17
Foreign exchange translation	218	169	
Total U.S. segment	593	490	21
LIFECO CORPORATE			
Total holding company	(7)	–	
Restructuring costs	(20)	–	
Total Lifeco corporate	(27)	–	
TOTAL LIFECO	1,195	931	28

CANADA/EUROPE

The operations of the Canada/Europe segment of Lifeco are presented in terms of the major business units of Great-West Life and its subsidiaries, including London Life and Canada Life:

- GROUP INSURANCE life, health, disability, and creditor insurance products for group clients.
- INDIVIDUAL INSURANCE & INVESTMENT PRODUCTS life, disability and critical illness insurance products for individual clients, as well as retirement savings and income products for both group and individual clients.
- EUROPE/REINSURANCE insurance and wealth management products for both group and individual clients in Europe, as well as reinsurance and retrocession business primarily in Canada, the United States and Europe niche markets.
- CORPORATE business activities and operations not associated with the major business units of Canada/ Europe operations.

Canada/Europe net earnings of Lifeco attributable to common shareholders for 2003 were $629 million, compared with $441 million for 2002.

The 2003 earnings result was due to both strong operating earnings for Great-West Life and London Life, as well as the inclusion of Canada/Europe results of CLFC from the date of acquisition, which represents earnings of approximately $124 million, net of related financing costs.

Total assets under administration for Canada/Europe more than doubled to over $112.1 billion, including $49.8 billion attributable to the inclusion of Canada Life.

PREMIUMS AND DEPOSITS – CANADA/EUROPE OPERATIONS

YEARS ENDED DECEMBER 31 [IN MILLIONS OF DOLLARS]	2003	2002		2003	2002	
	PREMIUMS AND DEPOSITS		% CHANGE	SALES		% CHANGE
Group Insurance	4,103	3,575	15	323	319	1
Individual Operations						
Life insurance	1,942	1,655	17	140	108	30
Living benefits	153	127	20	34	24	42
Retirement & Investment Services	3,856	3,086	25	3,218	2,992	8
Europe/Reinsurance	5,816	3,922	48	5,185	3,922	32
Total premiums and deposits	15,870	12,365	28	8,900	7,365	21
Bulk Reinsurance	(2,716)	–	–			
Net premiums and deposits	13,154	12,365	6			

GROUP INSURANCE Total premiums, which include claims from Administrative Services Only (ASO) clients, were up 15 per cent to $4.1 billion in 2003. The growth was driven by continued strong persistency, slightly improved sales results, and rate adjustments to account for health care inflation. Sales results were up a modest 1 per cent overall. While sales emerging from new clients were up significantly, the sales of benefit plan improvements from existing clients deteriorated, reflecting a general industry trend in 2003. Notwithstanding this, sales in the target small- and mid-sized case market increased 8 per cent overall.

INDIVIDUAL INSURANCE & INVESTMENT PRODUCTS Individual life insurance sales, measured by annualized premium, increased by 30 per cent to $140 million in 2003, while revenue premium exceeded $1.9 billion. Sales of participating policies increased 19 per cent in 2003 and continued strong in the age 50+ wealth management market.

Total sales of disability income products and critical illness insurance increased by 42 per cent in 2003, for a total of $34 million in new annualized premium.

RETIREMENT & INVESTMENT SERVICES — The Division experienced increased sales in 2003. Sales results reflected both the acquisition of Canada Life and difficult market conditions during the first half of the year, particularly in the retail segregated funds area.

Individual retail segregated funds grew 40 per cent during 2003, or 14 per cent excluding Canada Life assets acquired during the year.

The company continued to generate positive net cash flows from retail segregated funds. This compares favourably with Investment Funds Institute of Canada (IFIC) members, which in total experienced negative cash flows in 2003.

In 2000, the company established Quadrus Investment Services (Quadrus) as a mutual fund dealer for *Freedom 55 Financial* and Great-West Life investment representatives. Mutual fund assets distributed by Quadrus licensed investment representatives increased 40 per cent over 2002, which included successfully repatriating investment representatives and their mutual fund business to Quadrus. In 2003, sales of mutual funds through Quadrus increased 27 per cent.

EUROPE/REINSURANCE — The Europe/Reinsurance Division is broadly organized along geographically defined market segments and offers a wide range of protection and wealth management products and reinsurance. The Division consists of two distinct businesses: Europe, which comprises operating divisions in the United Kingdom, Isle of Man, Republic of Ireland, Germany and around the world; and Reinsurance, which operates primarily in the United States and Europe.

Total premiums of this new business unit of Lifeco were made up of insurance and wealth management premiums of $2.1 billion and reinsurance premiums of $3.7 billion.

BULK REINSURANCE — The Group Insurance and Individual Insurance business units of Great-West Life and London Life entered into a bulk reinsurance agreement during the third quarter with a third-party reinsurer to cede a portion of direct written individual life and group life and health business. This agreement was effective July 1, 2003 and the following initial cession transactions were recorded in the third quarter Summary of Consolidated Statements of Earnings as a result of the transaction.

BULK REINSURANCE – CANADA/EUROPE

[IN MILLIONS OF DOLLARS]	GROUP INSURANCE	INDIVIDUAL INSURANCE	TOTAL
Premium income	(2,716)	–	(2,716)
Paid or credited to policyholders	(2,716)	–	(2,716)
Net income	–	–	–

UNITED STATES

The discussion of operating results is presented in terms of the major business units of GWL&A:

- GREAT-WEST HEALTHCARE health plans and life and disability insurance products for group clients.
- FINANCIAL SERVICES retirement savings products and services for public, private and non-profit employers, corporations and individuals, and life insurance products for individuals and businesses.
- CORPORATE business activities and operations not associated with the major business units of United States operations.

United States consolidated net income of Lifeco attributable to common shareholders for 2003 was $593 million, compared with $490 million for 2002.

The 2003 earnings result was primarily due to favourable morbidity in Great-West Healthcare (formerly called Employee Benefits) and the inclusion of the United States operations of CLFC from the date of acquisition, which represents approximately $45 million.

Total assets under administration in the United States increased 13 per cent to $47.1 billion, $9.7 billion attributable to the inclusion of Canada Life, somewhat offset by the change in foreign exchange translation rates.

PREMIUMS AND DEPOSITS – UNITED STATES OPERATIONS

YEARS ENDED DECEMBER 31 [IN MILLIONS OF DOLLARS]	2003	2002		2003	2002	
	PREMIUMS AND DEPOSITS		% CHANGE	SALES		% CHANGE
Healthcare						
Group life and health	7,842	9,786	(20)	891	1,176	(24)
Financial Services						
Individual Markets	1,000	1,147	(13)	283	545	(48)
Retirement Savings	3,491	4,128	(15)	1,811	1,452	25
Total premiums and deposits	12,333	15,061	(18)	2,985	3,173	(6)
Bulk Reinsurance	(2,656)	–	–			
Net premiums and deposits	9,677	15,061	(36)			

Excluding the changes in foreign exchange translation rates, total premiums and deposits in 2003 decreased 8 per cent, comprising a 10 per cent decrease for Great-West Healthcare and a 5 per cent decrease for Financial Services.

HEALTHCARE The 2003 premiums and deposits were US$5.6 billion, a decrease of US$0.6 billion from 2002, and fee income was US$606 million, a decrease of 8 per cent, both due to lower medical membership levels.

Subsequent to year-end, on January 14, 2004, the company announced the proposed sale of the Canada Life U.S. group life and health insurance business (excluding stop-loss) to Jefferson-Pilot Corporation, subject to regulatory approvals. This business represents approximately US$340 million in annual premium. The transaction should not have a significant impact on the financial results of Great-West Healthcare in 2004.

The total life and health block of business is composed of 1.9 million members at December 31, 2003, down from 2.2 million members a year ago.

FINANCIAL SERVICES Total premiums and deposits were US$3.2 billion in 2003, a decrease of US$0.2 billion from 2002.

Retirement participant accounts, including third-party administration and institutional accounts, increased 5 per cent in 2003, from 2,159,910 at December 31, 2002 to 2,265,713 at December 31, 2003. Although the segment experienced a decrease in one large case termination of 117,000 participant accounts in the first quarter of 2003, this was offset by growth from sales and increased participation in existing case sales during 2003.

In 2003, the company continued its efforts to partner with large financial institutions to provide individual term life insurance to the general population. At December 31, 2003, there were 116,739 policies in force, compared with 74,080 at December 31, 2002.

BULK REINSURANCE — The Great-West Healthcare business unit of GWL&A entered into a bulk reinsurance agreement during the third quarter of 2003 with a third-party reinsurer to cede a portion of direct written group health stop-loss and excess loss business. This agreement was retroactive to January 1, 2003. The Financial Services business unit of GWL&A entered into a reinsurance agreement during the third quarter of 2003 with another third-party reinsurer to cede a portion of guaranteed investment contracts. This second agreement was retroactive to April 1, 2003 and the following initial cession transactions were recorded in the third-quarter Summary of Consolidated Statements of Earnings as a result of these transactions:

BULK REINSURANCE – U.S.

[IN MILLIONS OF DOLLARS]	HEALTHCARE	FINANCIAL SERVICES	TOTAL
Premium income	(563)	(2,093)	(2,656)
Investment income	–	(67)	(67)
Paid or credited to policyholders	(563)	(2,166)	(2,729)
Commissions	–	6	6
Net income	–	–	–

LIFECO CORPORATE

The Lifeco corporate segment, established in 2003, captures operating results for activities of Lifeco that are not assigned or associated with the major business units of the company.

The operating results for Lifeco corporate were a charge of $27 million in 2003 (n/a for 2002) and are comprised mainly of restructuring costs related to the CLFC acquisition, U.S. withholding tax and Lifeco entity operating expenses.

- Restructuring costs: following the acquisition of CLFC on July 10, 2003, a plan was developed to restructure and exit selected operations of CLFC. Costs of $497 million before income tax are expected to be incurred as a result, including approximately $412 million that was recognized as part of the purchase equation of CLFC, and $85 million to be charged to income as it is incurred. Of this latter amount, restructuring costs of $31 million pre-tax ($20 million after tax) have been included in net income attributable to shareholders' Lifeco corporate segment.
- U.S. withholding tax is incurred by Lifeco in the course of receiving dividends from U.S. subsidiaries and was $5 million in 2003.

FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

CONDENSED BALANCE SHEET

DECEMBER 31 [IN MILLIONS OF DOLLARS]	2003	2002
Invested assets	83,116	51,551
Funds withheld by ceding insurers	4,142	4,786
Goodwill and intangible assets	6,663	1,687
Other assets	3,530	2,047
TOTAL ASSETS	97,451	60,071
Policy liabilities	71,498	48,296
Funds held under reinsurance contracts	4,655	–
Other liabilities	10,289	5,016
Non-controlling interests	2,418	2,051
Preferred shares	1,125	430
Common shareholders' equity	7,466	4,278
LIABILITIES, CAPITAL STOCK AND SURPLUS	97,451	60,071
SEGREGATED FUND ASSETS	61,699	36,048

Total assets and assets under administration were $159.2 billion at year-end 2003, an increase of $63.0 billion from 2002. Assets under administration include segregated funds of $61.7 billion at December 31, 2003, compared with $36.0 billion at the end of 2002, an increase of $25.7 billion, and general fund assets of $97.5 billion, an increase of $37.3 billion over 2002. This reflects in particular the impact of the acquisition of Canada Life, which added $33.9 billion in general fund assets and $24.2 billion in segregated fund assets in 2003. Excluding the impact of CLFC, assets under administration increased $4.9 billion or 5 per cent year-over-year.

Increase in goodwill and intangible assets results from the acquisition of CLFC.

Obligations to policyholders made up 83 per cent of total liabilities at the end of 2003 (91 per cent at year-end 2002). The valuation of policy liabilities is certified by the Actuary of Great-West Life and the Actuary of GWL&A as being in accordance with accepted actuarial practices.

In 2003, Great-West Life, London Life and GWL&A reinsured certain blocks of individual non-participating life insurance on a yearly renewable term insurance basis, and group life, long-term disability and group annuity business on a co-insurance/funds withheld basis. In the consolidated balance sheet, this transaction resulted in a reduction in policyholder liabilities of $4,655 million and an increase for the same amount in funds held under reinsurance contracts.

During 2003, Lifeco paid dividends of $1.125 per common share, for a total amount of $459 million for the year. This represents a dividend payout ratio of 38.1 per cent of 2003 earnings (2002 – 37.4 per cent), and a 2003 dividend yield (dividends as a percentage of average high and low market prices) of 2.8 per cent (2002 – 2.6 per cent). Book value per common share was $16.72 at December 31, 2003, compared with $11.68 at December 31, 2002. Capital stock and surplus (excluding non-controlling interests) increased by $3.9 billion to $8.6 billion in 2003. On July 10, 2003, in connection with the acquisition of CLFC, Lifeco issued $2,102 million of common shares and $796 million of preferred shares to CLFC common shareholders, and $900 million of common shares from treasury to Power Financial and Investors Group via private placements, for a total of $3.8 billion. On September 30, 2003, Lifeco redeemed its Series C 7.75% Non-Cumulative First Preferred Shares for a total of $102 million. In 2003, Lifeco purchased a total amount of $155 million of its common shares under its normal course issuer bid. Total capital and surplus (including non-controlling interests) of $11.0 billion at December 31, 2003 was 12.7 per cent of total liabilities, compared with $6.8 billion or 12.7 per cent in 2002. It is Lifeco's intention to maintain surplus ratios in its operating subsidiaries at levels sufficient to provide assurance of policyholder security and to maintain its superior credit ratings.

The Office of The Superintendent of Financial Institutions Canada has specified a capital measurement basis for life insurance companies operating in Canada, known as the Minimum Continuing Capital and Surplus Requirements and Great-West Life's ratio is 190 per cent, a very solid level for the industry (223 per cent at the end of 2002).

GWL&A is subject to comprehensive state and federal regulation and supervision throughout the United States, where the National Association of Insurance Commissioners has adopted risk-based capital rules and other financial ratios for life insurance companies. GWL&A has estimated risk-based capital to be 375 per cent at December 31, 2003 (428 per cent at the end of 2002) after giving effect to the sale of the Canada Life U.S. group life and health business (see also page 92).

RATINGS OF LIFECO AND MAJOR SUBSIDIARIES

RATING AGENCY	MEASUREMENT	LIFECO	GREAT-WEST LIFE	LONDON LIFE	CANADA LIFE	GWL&A
A.M. Best Company	Financial Strength		A+	A+	A+	A+
Dominion Bond Rating Service	Claims Paying Ability		IC-1	IC-1	IC-1	NR
	Senior Debt	A [high]				
	Subordinated Debt				AA [low]	
Fitch Ratings	Insurer Financial Strength		AA+	AA+	AA+	AA+
Moody's Investors Service*	Insurance Financial Strength		Aa3	Aa3	Aa3	Aa3
Standard & Poor's Ratings Service*	Insurer Financial Strength		AA	AA	AA	AA
	Senior Debt	A+				
	Subordinated Debt				A+	

*Ratings are on a negative outlook.

All credit ratings of Lifeco and its major subsidiaries were reviewed during 2003.

ASSET QUALITY

Non-performing investments, including bonds in default, mortgages in the process of foreclosure or in arrears 90 days or more, and real estate acquired by foreclosure, totalled $234 million or 0.3 per cent of portfolio investments at December 31, 2003, compared with $139 million or 0.3 per cent a year earlier. Lifeco's allowance for credit losses at December 31, 2003 was $190 million, compared with $166 million at year-end 2002.

Lifeco's exposure to non-investment grade bonds was 2.3 per cent of the portfolio at the end of 2003, down slightly from 2.6 per cent at December 31, 2002.

CASH FLOWS

DECEMBER 31 [IN MILLIONS OF DOLLARS]	2003	2002
Cash flows relating to the following activities:		
Operations	2,098	1,394
Financing	1,390	(595)
Investment	(1,939)	(724)
Increase in cash and certificates of deposits	1,549	75
Cash and certificates of deposits, beginning of year	912	837
Cash and certificates of deposits, end of year	2,461	912

The increase in cash flows from operations for the twelve-month period is essentially attributable to the inclusion of CLFC results. Financing and investment activities were dominated by the cash components of the CLFC acquisition and the related issue of common shares and debentures, as well as the utilization of credit facilities.

RISK MANAGEMENT AND CONTROL PRACTICES

RISKS ASSOCIATED WITH POLICY LIABILITIES Insurance companies are in the business of assuming and managing risk. Depending on the product being offered, the risks vary. Products are priced for target levels of return and as experience unfolds pricing assumptions are validated and profit emerges in each accounting period. The significant risks and related monitoring and control practices of Lifeco's operating companies are:

CLAIMS RISKS Many products provide benefits in the event of death or disabling conditions or provide for medical or dental costs. Research and analysis is continuously ongoing to provide the basis for pricing and valuation assumptions which properly reflect the insurance and reinsurance markets where the company is active. Effective underwriting policies control the selection of risks insured for consistency with claims expectations.

PERSISTENCY (POLICY TERMINATION) RISK Products are priced and valued to reflect the expected duration of contracts. This risk is important for expense recovery (higher costs are incurred in early contract years) and for certain long-term level premium products. Annual research studies support pricing and valuation assumptions for this persistency risk.

INVESTMENT-RELATED RISK Products are priced and valued based on the investment returns available on assets which back up the policy liabilities. Effective and continual communication between pricing, valuation and investment management is required to control this risk. Investment policies have been approved by the Board of Directors of each operating company. These policies provide guidance on the mix of assets allowable for each product segment.

REINSURANCE RISK Products with mortality and morbidity risks have specific limits of retention approved by the Board of Directors on the recommendation of the Actuary. The company also takes advantage of financial risk transfer through reinsurance to enhance returns on capital. Companies providing reinsurance are reviewed for financial soundness as part of the ongoing monitoring process.

RISKS ASSOCIATED WITH INVESTED ASSETS The company acquires and manages portfolios of assets to produce risk-adjusted returns in support of policyholder obligations and corporate profitability. Investment and Lending Policies, as well as Investment Procedures and Guidelines are approved annually by either the Board of Directors or a subcommittee of the Board of Directors. The significant risks associated with invested assets that the operating companies manage, monitor and control are outlined below.

INTEREST RATE RISK exists if asset and liability cash flows are not closely matched and interest rates change. For asset/liability management purposes, the general funds are divided into segments. Assets in each segment are managed in relation to the liabilities in the segment. The risks associated with the mismatch in portfolio duration and cash flow, asset prepayment exposure and the pace of asset acquisition are quantified and reviewed regularly.

Interest rate risk is also managed by investing in assets that are suitable for the products sold. For products with fixed and highly predictable benefit payments, investments are made in fixed income assets that closely match the liability product cash flows. For products with uncertain timing of benefit payments, investments are made in fixed-income assets with cash flows of shorter duration than the anticipated timing of the benefit payments.

CREDIT RISK It is company policy to acquire only investment-grade assets and minimize undue concentration of assets in any single geographic area, industry and company. Guidelines specify minimum and maximum limits for each asset class.

LIQUIDITY RISK The company closely manages operating liquidity through cash flow matching of assets and liabilities and has approximately $48.0 billion in highly marketable securities.

FOREIGN EXCHANGE RISK Investments are normally made in the same currency as the liability. Any foreign currency assets acquired to back liabilities are converted using foreign exchange contracts.

RISKS ASSOCIATED WITH THE INVESTMENT FUND BUSINESS MARKET RISK The company's investment fund business is fee-based, with revenue and profitability based on the market value of the investment fund assets under management. Fluctuations in fund asset levels occur as a result of both changes in cash flow and general investment market conditions. Through its wide range of funds, the company limits its risk exposure to any particular market.

INTEGRATION OF CANADA LIFE The acquisition of Canada Life has been entered into with the expectation that its successful completion will result in long-term strategic benefits and synergies. The anticipated benefits and synergies will depend in part on whether the operations of both organizations can be integrated in an efficient and effective manner. Speed and quality are two critical success factors for the integration. The company has made significant progress in integrating systems and processes in 2003, and in laying the groundwork for conversion of Canada Life. Lifeco is leveraging the combined expertise and experience of the Lifeco and Canada Life organizations to complete the integration and conversion by early 2005, and to ensure that quality customer service is maintained throughout this process.

OUTLOOK

With the acquisition of CLFC, management believes Lifeco and its subsidiaries are well positioned for a long-term earnings growth. Lifeco's subsidiaries remained tightly focused on their core markets and have plans in place to capitalize on the consolidation of CLFC with Great-West Life and GWL&A. In Canada, Lifeco's extensive distribution network and lower cost structure continues to position it to capitalize on developments in the market place. Lifeco's Europe/Reinsurance operations represent a strong diversified platform for growth with expanded products and services offering an increased market presence. In the United States, Lifeco has positioned itself to respond effectively to changes in the health care market place and expects its defined contribution plan and 401(k) business to continue to grow.

SUMMARIZED FINANCIAL INFORMATION

FOR THE YEARS ENDED DECEMBER 31 [IN MILLIONS OF DOLLARS, EXCEPT PER SHARE AMOUNTS]	2003	2002	% CHANGE
Net income attributable to common shareholders			
Excluding dilution gain, restructuring reversal and income tax charge [1]	534	491	8.6
Including dilution gain, restructuring reversal and income tax charge	539	491	9.8
Diluted earnings per share			
Excluding dilution gain, restructuring reversal and income tax charge [1]	2.01	1.85	8.6
Including dilution gain, restructuring reversal and income tax charge	2.03	1.85	9.7
Return on equity			
Excluding dilution gain, restructuring reversal and income tax charge [1]	18.9%	19.2%	
Including dilution gain, restructuring reversal and income tax charge	19.1%	19.2%	
Dividends per share	0.99	0.86	15.1
Book value per share	10.83	9.82	10.3
Mutual funds			
Investors Group			
Sales	4,021	4,916	(18.2)
Net sales [redemptions]	(839)	(109)	N/M
Assets under management	40,904	37,588	8.8
Mackenzie Financial Corporation			
Sales	5,282	5,998	(11.9)
Net sales [redemptions]	(69)	288	(124.1)
Assets under management	33,770	30,860	9.4
Combined mutual fund assets under management	74,674	68,448	9.1
Corporate assets	6,292	5,987	5.1
Insurance in force [face amount]	31,307	27,546	13.7
Securities operations assets under administration	5,785	4,938	17.2
Mortgages serviced	6,425	6,938	(7.4)
Deposits and certificates	729	709	2.9

[1] Refer to table on page 99 for a reconciliation of non-GAAP financial measures.

HIGHLIGHTS OF OPERATING RESULTS

Net income attributable to common shareholders for the year ended December 31, 2003, excluding the items noted below, was $533.5 million, compared with $491.1 million in 2002. Diluted earnings per share on this basis were $2.01, compared with $1.85 in 2002, an increase of 8.6 per cent. The figure in 2003 excludes:

- a dilution gain of $14.8 million, recorded in the third quarter, resulting from the reduction in Investors Group's percentage ownership of Lifeco related to the acquisition of CLFC;
- the reversal, in the fourth quarter, of $24.8 million ($15.6 million after tax) of restructuring costs related to the acquisition of Mackenzie; and
- a non-cash income tax charge of $24.8 million, recorded in the fourth quarter, arising from increases in Ontario income tax rates and their effect on the future income tax liability related to indefinite life intangible assets.

Including these items, net income attributable to common shareholders was $539.1 million or $2.03 per share in 2003. This compares with net income attributable to common shareholders of $491.1 million and earnings per share of $1.85 in 2002.

RECONCILIATION OF NON-GAAP FINANCIAL MEASURES

FOR THE YEARS ENDED DECEMBER 31 [IN MILLIONS OF DOLLARS, EXCEPT PER SHARE AMOUNTS]	2003		2002	
	NET INCOME	PER SHARE	NET INCOME	PER SHARE
Net income attribuable to common shareholders, excluding the following items [non-GAAP results]	534	2.01	491	1.85
Dilution gain	15	0.05		
Restructuring reversal, net of tax	15	0.06		
Non-cash income tax charge	(25)	(0.09)		
Net income attributable to common shareholders [GAAP results]	539	2.03	491	1.85

The company's reportable segments, which reflect the current organizational structure, are:

- Investors Group
- Mackenzie
- Corporate and Other

Management of the company measures and evaluates the performance of these segments based on earnings before interest and taxes, as shown below:

CONDENSED STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31 [IN MILLIONS OF DOLLARS]	2003	2002	2003	2002	2003	2002	2003	2002
	INVESTORS GROUP		MACKENZIE		CORPORATE & OTHER		TOTAL	
Fee income	971	1,030	743	783			1,714	1,813
Net investment income and other	104	100	20	18	36	9	160	127
	1,075	1,130	763	801	36	9	1,874	1,940
Operating expenses								
Commissions	191	196	284	302			475	498
Non-commission	236	254	257	281	1		494	535
	427	450	541	583	1		969	1,033
Earnings before interest and taxes	648	680	222	218	35	9	905	907
Restructuring reversal							25	
Interest expense [1]							(86)	(80)
							844	827
Dilution gain							15	
Income before income taxes and discontinued operations							859	827
Income taxes [2]							299	317
Income before discontinued operations							560	510
Discontinued operations								2
Net income							560	512
Preferred dividends							21	21
Net income available to common shareholders							539	491
Net income, excluding dilution gain, restructuring reversal and income tax charge [non-GAAP financial measures]							534	491

[1] Interest expense represents the cost of financing the Mackenzie acquisition and totalled $86 million in 2003, compared with $80 million in 2002. During 2003, the company refinanced $275 million of the BA's related to the Mackenzie acquisition with a portion of the proceeds from the debentures issued in December 2002 and the two debentures issued in 2003. The refinancing resulted in an increase in the effective rate of interest on long-term debt related to the Mackenzie acquisition.

[2] The effective rate of tax was 34.8 per cent in 2003, compared with 38.4 per cent in 2002. The company benefited from statutory tax rate reductions, excluding Ontario, as well as other tax benefits, which were partly offset by the non-cash charge of $25 million related to future income tax liability on intangible assets with an indefinite life, as explained earlier. This charge increased the 2003 effective tax rate by 2.9 per cent.

Investors Group's core business provides a comprehensive range of financial and investment planning services to Canadians through its network of highly trained and well-supported consultants.

CONSULTANTS Investors Group distinguishes itself from its competition by offering personal, long-term financial planning to its clients. At the centre of this relationship is a national distribution network of highly skilled consultants working from 111 Financial Planning Centres across Canada. At the end of 2003, Investors Group had 3,223 consultants, compared with 3,324 in 2002. The percentage of consultants with more than four years' experience remained steady at 60.5 per cent, compared with 60.9 per cent a year earlier.

Investors Group is focused on growing its distribution network through the retention of existing consultants and the attraction of new industry professionals. Although the financial markets and the overall business environment improved in 2003, investor confidence was slow to recover. While this affected the recruitment efforts, retention levels improved in the second half of the year, and the consultant network grew in both the third and fourth quarters of 2003, the first consecutive quarters of growth since 1998.

Investors Group implemented a number of significant changes in 2003 designed to enhance the competitiveness of the product and service offering to its clients as well as changes aimed at providing greater value to consultants. These included:

- a comprehensive review and realignment of its pricing structure to enhance competitiveness;
- a realignment of its consultants' compensation and support to be more competitive, including a deferred compensation component designed to promote consultant retention;
- the introduction of *Symphony*™, as discussed further in this report;
- the enhancement of the Investors Group *Advantage*™ technology platform, which delivers additional flexibility, capability and productivity; and
- the introduction of *Solutions Banking*™ in June 2003, a suite of banking products and services through National Bank of Canada that expands Investors Group's financial planning-platform to include a greater proportion of its clients' balance sheets.

PRODUCTS AND SERVICES Investors Group is regarded as a leader in personal financial planning in Canada. This is achieved by delivering personal financial solutions tailored to each client's individual needs. Consultants recommend balanced, diversified and professionally managed portfolios that reflect the client's long-term goals and tolerance for risk.

In October 2003, Investors Group launched *Symphony*™, an enhanced strategic investment planning approach. *Symphony*™ is designed to help consultants build their business with a sophisticated investment discipline, backed by a process that provides a sound methodology for measuring a client's risk tolerance. Based on that assessment, consultants are able to provide appropriate risk-adjusted recommendations using Investors Group's extensive offering of funds. *Symphony*™ is a scientific and fully integrated approach to strategic investment planning support, which simplifies the asset allocation process and provides Investors Group with a high degree of competitive differentiation.

Consultants also look beyond investments to offer clients insurance products, banking services, mortgages and tax planning.

REVIEW OF SEGMENT OPERATING RESULTS

Investors Group earns revenue primarily from the management, administration and distribution of 147 Investors *Masterseries*™, partner and managed asset investment funds. This includes:

- management fees for advising and managing its mutual funds;
- fees charged to its mutual funds for administrative services, through certain of its subsidiaries, and trustee services, through Investors Group Trust Co. Ltd; and
- distribution fees charged to mutual fund account holders, which include redemption fees or back-end loads on mutual funds subject to a deferred sales charge.

Fee income is also earned from the distribution of insurance products, through I.G. Insurance Services Inc., and the provision of securities services through Investors Group Securities Inc. Additional revenue is derived from mortgage, banking and investment certificate operations.

Investors Group's earnings from operations before interest and taxes for the year ended December 31, 2003 were $648.5 million, compared with $680.5 million in 2002, as shown on the Condensed Statements of Income.

FEE INCOME To provide a stable level of fee income, Investors Group must continue to maintain high levels of mutual fund assets under management. Mutual fund assets under management totalled $40.9 billion at December 31, 2003, an increase of 8.8 per cent from $37.6 billion in 2002. The level of assets under management is influenced by four factors: sales, redemption rates, capital markets and relative investment performance.

For the year ended December 31, 2003, sales of Investors Group mutual funds through its consultant network were $4.02 billion, a decrease of 18.2 per cent from 2002. This compares to an overall industry decrease in mutual fund sales of 14.3 per cent. Mutual fund redemptions totalled $4.86 billion for the same period, a decrease of 3.3 per cent from $5.02 billion in 2002. Investors Group's redemption rate for long-term funds increased to 10.7 per cent in 2003 from 10.2 per cent in 2002, but remains well below the corresponding redemption rate of 14.1 per cent for all other members of IFIC. Net redemptions of Investors Group mutual funds were thus $839 million in 2003, compared with net redemptions of $109 million in 2002. Investment management services provided attractive levels of returns during the year as mutual fund assets increased by $4.2 billion or 11.1 per cent of opening assets due to market appreciation, consistent with overall industry growth. Overall, net change in assets was $3.3 billion in 2003.

In 2003, management fee income decreased by $46.0 million or 5.8 per cent to $741.4 million, reflecting a decline of 4.5 per cent in average daily mutual fund assets in 2003 compared with 2002.

Administration fees totalled $138.3 million in 2003, down 6.9 per cent from $148.6 million in 2002. Fees charged to the mutual funds for administrative services declined due to reductions in related expenses. Trustee fees declined due to reduced average mutual fund assets during the year.

Distribution fee income was $91.9 million in 2003, compared with $93.6 million in 2002. This decrease was due to lower redemption fee income consistent with the decline in redemptions subject to those fees. Overall, fee income totalled $971.6 million in 2003, compared with $1,029.6 million in 2002.

NET INVESTMENT INCOME AND OTHER includes interest and dividends earned on cash and cash equivalents, securities and mortgage loans. It also includes gains and losses on the sale of securities, Investors Group's share of earnings of Lifeco, as well as income related to mortgage banking activities. Investors Group measures net investment income as the difference between investment income and interest expense. Interest expense includes interest on deposit liabilities, certificates and debt, but excludes interest expense on debt incurred to finance its acquisition of Mackenzie.

Net investment income and other totalled $104.0 million, an increase of 3.5 per cent from $100.5 million in 2002. The increase is due principally to the increase in Investors Group's share of earnings of Lifeco, offset in part by lower mortgage banking revenue.

OPERATING EXPENSES Investors Group incurs commission expense in connection with the distribution of its financial services and products, particularly its mutual funds. Commissions are paid on the sale of these products and will fluctuate with the level of sales. Commission expense in 2003 decreased by $4.0 million or 2.0 per cent, to $191.3 million, compared with $195.3 million in 2002. The decrease in commission expense was related to:

- lower average mutual fund assets under management resulting in lower asset retention bonus expense; and
- lower mutual fund sales in 2003.

Non-commission expenses declined $18.5 million to $235.8 million in 2003 from $254.3 million in the previous year and represents a decrease of 7.3 per cent. This decline was primarily due to:

- the impact of synergies related to the transition work completed with Mackenzie;
- management of discretionary expenses;
- improvements in productivity and the benefits derived from continued investment in technology;
- the decrease in average assets on which subadvisory fees are based; and
- reductions in consultant network support costs as a result of lower transactional activity levels and a smaller number of consultants during the year.

Management of the company continues to focus on expense reduction measures beyond the opportunities created by the transition activities. Investors Group has been able to gain these efficiencies and reduce expenses without affecting the quality of service provided to its clients and consultants.

Mackenzie is a multifaceted investment management and financial services corporation whose core business is the management and administration of mutual funds on behalf of Canadian investors and their financial advisors.

ASSET MANAGEMENT OPERATIONS — As at December 31, 2003, more than one million clients held Mackenzie mutual funds and segregated funds. Total Mackenzie assets under management and administration increased 11.3 per cent during the year to amount to $38.3 billion.

In 2003, Mackenzie received eight awards at the Canadian Investment Awards Gala. Mackenzie has now been home to the "Analysts' Choice Fund Manager of the Year" award for five of the past six years. Industry recognition also came from the *Morningstar*™ fund-ranking service. In December, they reported that for the sixth consecutive month Mackenzie offered the most funds with a five-star rating.

PRODUCT DEVELOPMENT, SERVICE AND POSITIONING — Mackenzie is a recognized product innovator in Canada and is constantly striving to develop better products that improve the after-tax return to investors. In recent years, Mackenzie has faced significant competition from structured yield products. Management is confident that it can meet these competitive market forces at lower costs for financial advisors and their clients.

In December 2003, Mackenzie filed a preliminary prospectus for Symmetry, a product which will be very competitive with the in-house wrap businesses developed by some distributors. Symmetry portfolios are constructed to meet each investor's unique profile using strategic asset allocation.

DEALER, TRUST AND ADMINISTRATIVE SERVICES — MRS Group partners with independent financial advisors and their dealer firms to provide product and service solutions that increase their competitive advantage in the market place. MRS Group is composed of Multiple Retirement Services Inc., a mutual fund dealer, M.R.S. Trust Company, a federally regulated trust company, M.R.S. Securities Services Inc., an IDA member firm, and Winfund Software Corp., a developer and distributor of back-office software. These companies work together to support Canadian investment and mutual fund dealers and their financial advisors.

MRS Group services 900,000 registered and investment accounts. More than 9,500 independent financial advisors representing some 400 dealer firms across Canada choose MRS Group for their clients.

REVIEW OF SEGMENT OPERATING RESULTS

Mackenzie's earnings from operations before interest and taxes for the year ended December 31, 2003 were $221.4 million, compared with $217.9 million in 2002.

FEE AND NET INVESTMENT INCOME — Mackenzie's mutual fund assets under management totalled $33.8 billion at December 31, 2003, an increase of 9.4 per cent from $30.9 billion at December 31, 2002. Market performance positively impacted mutual fund assets by $3.0 billion during the year. Sales of long-term funds (excluding money market and managed yield funds) were $4.0 billion in 2003, compared with $4.3 billion in 2002, a decline of 8.1 per cent. Net sales of long-term funds were $209 million in 2003, compared with $700 million in 2002.

Management fees were $554.7 million for the year ended December 31, 2003, a decrease of $37.9 million from $592.6 million in 2002. This decline is consistent with the 4.3 per cent decrease in Mackenzie's average mutual fund assets under management and the decline in the average management fee rate.

Administration fees include the following main components: operating expenses charged to funds, fees earned from administering certain Labour Sponsored Venture Capital Funds, and trustee and other administration fees generated from the MRS Group account administration business. Administration fees increased by $1.8 million to $148.5 million in 2003, compared with $146.7 million in 2002.

Distribution revenue, which represents fees earned on the redemption of mutual fund units sold on a deferred sales charge basis, decreased $4.7 million to $39.6 million from $44.3 million in the previous year, consistent with the decline in the redemption of mutual fund units that were subject to a redemption fee.

Net investment income and other represents the net interest margin from M.R.S. Trust's lending and deposit operations. Net investment income in 2003 was $19.9 million, an increase of $2.3 million from $17.6 million in 2002. The increase in the current year is attributed to a gain realized on the disposition of real estate held for sale.

OPERATING EXPENSES Commission expense, which represents the amortization of deferred selling commissions, decreased $11.5 million to $141.7 million from $153.2 million in 2002.

Trailer fees paid to dealers were $142.3 million in 2003, a decrease of $6.7 million from $149.0 million in the previous year. This decline is consistent with the overall decrease in Mackenzie's average mutual fund assets under management.

Non-commission expenses include costs incurred by Mackenzie in the administration, marketing and management of its mutual funds and all other expenses in the operation of its business. Non-commission expenses decreased $23.8 million to $257.3 million in 2003, from $281.1 million in the previous year. This decline was primarily due to:

- synergies related to the transition work with Investors Group;
- management of discretionary expenditures;
- lower distribution fees paid to a limited partnership, consistent with the decline in average assets financed by limited partnership vehicles; and
- reduction in subadvisory expenses due to the internalization of certain fund mandates and the renegotiation of a number of subadvisory agreements in 2002 and 2003.

CORPORATE AND OTHER

Earnings before interest and taxes for Corporate and Other, the segment which represents net investment income earned on unallocated investments and other income, reflected higher levels of net investment income and other in 2003 compared to 2002. In addition, the figure for 2002 included a $12.2 million charge to income related to the writedown of the company's investments in mutual funds, in accordance with its accounting policy on securities.

FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

The company's on-balance sheet assets totalled $6.29 billion at December 31, 2003, compared with $5.99 billion at December 31, 2002.

CONDENSED BALANCE SHEETS

DECEMBER 31 [IN MILLIONS OF DOLLARS]	2003	2002
Cash and cash equivalents	969	771
Securities	106	156
Loans	528	549
Investment in affiliate	461	321
Deferred selling commissions	764	727
Other assets	334	337
Goodwill and intangible assets	3,130	3,126
Total assets	6,292	5,987
Deposits and certificates	729	709
Other liabilities	938	942
Long-term debt	1,404	1,386
Shareholders' equity	3,221	2,950
Preferred shares	360	360
Common shareholders' equity	2,861	2,590
Total liabilities and shareholders' equity	6,292	5,987

The company's holdings of securities were $106.2 million at December 31, 2003, a decrease of $50.0 million or 32.0 per cent from 2002. Securities currently represent 1.7 per cent of total assets as compared with 2.6 per cent at December 31, 2002. The market value of the company's portfolio at December 31, 2003 exceeded cost by $125.1 million, consistent with the prior year-end.

The company continually strives to ensure that its portfolio holdings are of the highest quality. To manage the market and credit risk associated with the securities portfolio, a Senior Management Investment Committee monitors and regularly reviews the company's portfolio and approves all purchases.

Loans, including mortgages and personal loans, decreased by $21.0 million to $528.0 million at December 31, 2003 and represent 8.4 per cent of total assets compared to 9.2 per cent in 2002. This decrease comprised $66.5 million in mortgages and personal loans related to the company's intermediary activities and an increase of $45.5 million in residential loans related to the company's mortgage banking operations.

At December 31, 2003, impaired loans totalled $2.2 million, unchanged from the prior year, and represented 0.40 per cent of the total loan portfolio, compared with 0.38 per cent at December 31, 2002. The company monitors its credit risk management policies continuously to evaluate their effectiveness. These policies and practices have resulted in the effective control of impaired loans. Management of the company continued its conservative policy of maintaining adequate allowances to absorb all known and foreseeable credit-related losses in the mortgage, loan, and real estate portfolios. The allowance for credit losses exceeded impaired mortgages and loans by $19.3 million as at December 31, 2003, compared with $19.4 million at December 31, 2002.

LIQUIDITY

The company's operating liquidity is required for:

- financing ongoing operations, including the funding of selling commissions internally;
- temporarily holding mortgages in its mortgage banking facility;
- meeting regular interest and dividend obligations related to long-term debt and preferred shares;
- payment of quarterly dividends on the company's outstanding common shares; and
- maintaining liquidity requirements for the company's regulated entities.

A key liquidity requirement for the company is the funding of commissions paid on the sale of mutual funds. Commissions paid continue to be fully funded through management fee revenue earned on mutual fund assets under management and through additional sales charges levied in connection with the early redemption of mutual funds. The company also maintains sufficient liquidity to fund and temporarily hold mortgages.

During the year, Investors Group repaid $275 million of the Floating Bankers' Acceptances due May 30, 2006 which were related to the acquisition of Mackenzie. On July 10, 2003 it purchased, by way of private placement, 2,662,690 common shares of Lifeco for total cash consideration of $100 million in support of the acquisition of CLFC.

Liquidity can also be provided through the company's ability to raise funds in domestic debt and equity markets, as evidenced by the funds raised to finance its acquisition of Mackenzie and by the funds raised through the $175 million and the $300 million in debentures issued in December 2002 and March 2003, respectively, which solidified a longer term capital structure and thus increased financial flexibility.

CAPITAL RESOURCES

Shareholders' equity increased to $3.22 billion as at December 31, 2003 from $2.95 billion at December 31, 2002. During 2003, long-term debt increased marginally to $1.40 billion from $1.39 billion at December 31, 2002. The company refinanced a portion of its long-term debt, extending terms at attractive interest rates while increasing its financial flexibility. The company's capital management objective is to preserve the quality of its financial position by establishing and maintaining a solid capital base and a strong balance sheet.

The quarterly dividend per common share was increased to 25.5 cents in 2003.

Independent reviews confirm the continuing quality of the company's balance sheet and the strength of its operations. During 2003, both Standard & Poor's Ratings Service (S&P) and the Dominion Bond Rating Service (DBRS) reviewed their ratings of the company's senior debt and liabilities. The senior debt and liabilities were rated "A" with a stable outlook by both S&P and DBRS. Management is confident that the company's current capital resources are adequate and can support its activities during 2004.

CONDENSED STATEMENTS OF CASH FLOWS

DECEMBER 31 [IN MILLIONS OF DOLLARS]	2003	2002
Cash flows from operating activities	442	356
Cash flows from financing activities	(230)	(663)
Cash flows from investing activities	(14)	224
Increase [decrease] in cash and cash equivalents	198	(83)
Cash and cash equivalents, beginning of year	771	854
Cash and cash equivalents, end of year	969	771

OUTLOOK

THE FINANCIAL SERVICES ENVIRONMENT — The financial services industry continues to experience considerable growth and substantial change. Some of the factors contributing to industry growth are:

- changes in investment habits;
- increasing ease of investment in capital markets;
- greater knowledge and understanding of investment products among the general public; and
- shifting demographics – the move of the baby boom generation into peak saving and investing years.

To provide financial planning services to Canadians, the company operates in a highly competitive environment and competes with other mutual fund companies and with other financial services organizations, including banks, brokerage firms and life insurance companies. Merger and acquisition activity in 2003 reflected continued consolidation within the financial services industry.

Investors Group and Mackenzie are well positioned to enhance the company's competitive position in both the mutual fund and the financial services industries. Investors Group and Mackenzie continue to pursue additional opportunities for product and service enhancements and operating efficiencies.

During 2003:

- Management met its transition plan objective, which was to achieve $100 million (pre-tax basis) of synergies per year on a run-rate basis in the second year following acquisition. This consisted of $75 million per year in synergies to the company's shareholders and $25 million per year in synergies to Investors Group and Mackenzie mutual fund clients. Synergies realized by mutual fund clients are based upon reductions in fund operating costs.
- The company completed the largest systems conversion in the history of the Canadian mutual fund industry in November 2003. Mackenzie and Investors Group merged their transfer agency and unitholder record-keeping systems into one shareholder administration system, preserving the integrity and privacy of their respective client bases. Both Mackenzie and Investors Group unitholders will benefit from economies of scale from the combined platform.
- Both Mackenzie and Investors Group developed innovative products and strategic investment planning tools to assist clients in building optimal investment portfolios.

This strategy continues to enhance the extent and quality of the company's client relationships, protect its client base and expand its market share.

THE REGULATORY ENVIRONMENT — The company is subject to complex and changing legal and regulatory requirements with the company's principal regulators, including the provincial and territorial governments in Canada. The company's activities are also regulated by the Canadian Securities Administrators, its member constituents and various self-regulatory organizations. Changes in the regulatory framework or failure to comply with any of these laws, rules and regulations could have an adverse effect on the company. The company supports all regulatory efforts that will protect the interests of clients and preserve the integrity and reputation of the industry and its members. Management looks forward to future developments that will further these objectives.

REVIEW OF MUTUAL FUND INDUSTRY PRACTICES — The Ontario Securities Commission, the Mutual Fund Dealers Association and other regulatory bodies are reviewing trading practices in the Canadian mutual fund industry and have requested information from mutual fund companies and dealers regarding "late trading" and "market timing" activities. Each of Investors Group and Mackenzie has provided detailed responses, on a timely basis, to the questionnaires issued by these regulators. The company supports this initiative to strengthen the Canadian mutual fund industry and will co-operate fully with the regulators in their efforts to obtain and assess relevant information.

OTHER RISK FACTORS

MARKET RISK — Stronger financial markets in 2003 led to growing investor confidence and increases in the level of assets under management. However, risks related to performance of the equity markets and changes in interest rates can have a significant impact on the level and mix of mutual fund assets and sales. In addition, these factors can result in increased redemptions of mutual funds.

REDEMPTION RATES The combined redemption rate for long-term funds for Investors Group and Mackenzie mutual funds was 11.7 per cent at December 31, 2003, among the lowest in the industry. The corresponding redemption rate for the industry as a whole was 14.2 per cent, excluding the company's mutual funds.

Investors Group and Mackenzie provide consultants and independent financial advisors with superior levels of service and support and a broad range of investment products – based on asset classes, countries or regions, and investment management styles. These are key advantages in maintaining strong client relationships and, as a result, the company has been able to maintain redemption rates that are among the lowest in the industry.

The mutual fund industry has successfully educated mutual fund investors on the benefits of long-term investing. Financial advisors can also play a key role in educating investors about the value of portfolio diversification. In periods of declining markets and market volatility, the company's consultants and independent financial advisors are effective in reminding clients of the benefits of long-term investing.

DISTRIBUTION RISK — INVESTORS GROUP CONSULTANT NETWORK Investors Group derives all of its mutual fund sales through its consultant network. Investors Group consultants have regular direct contact with particular clients, which can lead to a strong and personal client relationship, based on the client's trust in that individual consultant. The market for financial advisors is extremely competitive. The loss of a significant number of key consultants could lead to the loss of client accounts, which could have an adverse effect on Investors Group's results of operations and business prospects.

MACKENZIE Mackenzie derives substantially all of its mutual fund sales through independent financial advisors. Mackenzie's ability to market its products is highly dependent on access to various distribution channels. These intermediaries generally offer their clients investment products in addition to, and in competition with, Mackenzie. The inability to have such access could have a material adverse effect on Mackenzie's operating results and business prospects. However, Mackenzie's portfolio of financial products is recognized as one of the most innovative and unique in the industry. This, combined with strong performance, marketing, educational and service support, has made Mackenzie one of Canada's leading companies serving independent financial advisors.

THE PARGESA GROUP

HIGHLIGHTS Power Financial and the Frère group of Charleroi, Belgium, each hold 50 per cent of Parjointco N.V., a Dutch company that, as of December 31, 2003, held a 61.4 per cent voting interest (unchanged from 2002) and a 54.4 per cent equity interest (2002 – 54.6 per cent) in Pargesa Holding S.A., the parent company of the Pargesa group. Pargesa has its head office in Geneva, Switzerland, and its shares are listed on the Swiss Exchange. The Pargesa group holds interests in various large European companies active primarily in the media, energy, water, waste services and specialty mineral sectors.

The carrying value of Power Financial's interest in Parjointco as of December 31, 2003 was $1.6 billion, as in 2002. Power Financial's share of earnings of Parjointco, net of dividends received, has been offset by negative foreign currency translation adjustments. An organization chart and a more detailed description of the group's principal holdings are presented earlier in this Annual Report in the section entitled "The Pargesa Group."

As at December 31, 2003, Pargesa held a 48 per cent interest (2002 – 48.1 per cent) in the Belgian holding company Groupe Bruxelles Lambert (GBL), representing 50.3 per cent of the voting rights (2002 – 50.2 per cent). GBL, which is based in Brussels, Belgium, is listed on the Euronext Brussels stock exchange. At the same date, Pargesa and GBL jointly held a 53.5 per cent interest (54.3 per cent in 2002) in Imerys S.A. (specialty minerals), a company listed on the Paris stock exchange. In addition, Pargesa held 100 per cent of Orior Holding S.A., also based in Switzerland, which is active in the food industry. GBL holds the group's interests in Bertelsmann (media and entertainment), Total (energy) and Suez (energy, water and waste services).

PARGESA GROUP – FINANCIAL INFORMATION

AS AT DECEMBER 31, 2003 [IN MILLIONS OF DOLLARS] [1]	PARGESA HOLDING S.A.	GROUPE BRUXELLES LAMBERT
Cash and temporary investments	3	298[2]
Long-term debt	246[3]	30
Shareholders' equity	6,341	10,341
Market capitalization	5,803	10,064

[1] Foreign currencies have been converted into Canadian dollars at year-end rate.

[2] Net of debt and exchangeable bonds due in 2004 for an amount of $540 million.

[3] Drawdowns from bank credit facilities maturing in 2004 and 2005.

Over the last few years, Pargesa has taken steps to focus on a limited number of industrial and services companies that are well positioned in their respective markets and over which the group has control, or in which it has a substantial interest. Accordingly, the Pargesa group has worked actively to turn local or regional businesses into world-class companies, sometimes accepting a dilution in the level of control.

As a result, the group's investment portfolio has undergone a number of changes: many assets have been sold and, in some instances, significant acquisition, merger or exchange transactions have been carried out or encouraged in order to consolidate the group's existing positions.

The group now owns, through a simple holding structure, four main investments representing more than 93 per cent of Pargesa's adjusted net asset value, as shown in the table on the next page.

PARGESA – BREAKDOWN OF ADJUSTED NET ASSET VALUE [FLOW-THROUGH BASIS]

AS OF DECEMBER 31, 2003 [IN MILLIONS OF DOLLARS]	NET ASSETS [PARGESA'S SHARE]	%
Total [3.6 per cent]	2,705	39
Bertelsmann [25.1 per cent] [1]	1,307	19
Imerys [53.5 per cent]	1,704	24
Suez [7.2 per cent]	962	13
Other investments	176	3
Net cash and short-term assets net of long-term debt [2]	161	2
	7,015	100

Note: Percentage of ownership denotes the cumulative interests of Pargesa and its subsidiaries and affiliates.
Figures have been converted into Canadian dollars using an exchange rate of 1.0441.

[1] The value of the investment in the private company Bertelsmann, shown in the table above, is equivalent to Pargesa's economic interest in Bertelsmann's shareholders' equity as of December 31, 2003.

[2] Pargesa's share of net cash and short-term assets or long-term debt held by group holding companies.

At the end of December 2003, the adjusted net asset value was $7,015 million, corresponding to a value per Pargesa share of SF3,989 (SF3,345 at the end of 2002). Pargesa's adjusted net asset value is calculated on the basis of stock market prices for the listed holdings and of the share of consolidated shareholders' equity for the unlisted holdings (as per the most recent information provided by these companies).

CASH EARNINGS

From an accounting standpoint, the implementation of the strategy of recent years has resulted in a decrease in the number of holdings accounted for under the equity method. Total and Suez, which represent 52 per cent of Pargesa's adjusted net asset value, are accounted for at cost and, accordingly, only the annual dividend received from these companies is recorded for the purpose of determining Pargesa's consolidated earnings.

The group's results can also be analysed by examining, on a flow-through basis, the operating cash earnings generated by the group's holdings. Under this method, share of operating earnings of the holdings subject to equity accounting (Imerys and Bertelsmann) is replaced by the share of dividends received from those companies. Pargesa's Board of Directors has proposed to raise the dividend from SF86 to SF92 at the May 2004 Annual General Meeting of Shareholders.

PARGESA HOLDING S.A. – CONTRIBUTION TO OPERATING CASH EARNINGS[1]

[IN MILLIONS OF SWISS FRANCS, EXCEPT PER SHARE AMOUNTS]	2003	2002
	FLOW-THROUGH CASH EARNINGS	
Imerys	41.1	34.4
Bertelsmann	89.6	99.0
Total	71.9	65.4
Suez	38.4	37.7
Cash earnings from major holdings	241.0	236.5
Contribution from other participations	6.2	6.3
Operating results of holdings	(35.0)	(23.4)
Pargesa flow-through cash earnings	212.2	219.4
Cash earnings per share	126	130
Pargesa dividend per share [2]	92	86

[1] See definition on page 110.

[2] Subject to approval by shareholders at the May 2004 Annual General Meeting.

CONSOLIDATED EARNINGS

Pargesa saw its operating earnings grow from SF176 million in 2002 to SF192 million in 2003. Imerys posted in 2003 an 11 per cent increase in its net operating income expressed in Euros. The contribution from Bertelsmann to operating earnings, which includes as in 2002 Pargesa's share of the preferred dividend paid by Bertelsmann, also reflects an improvement in operating results. Total paid in 2003 a higher dividend than in 2002, while the dividend paid by Suez remained the same as the previous year. Overall, the contribution from the four main holdings to operating earnings increased by SF33 million, which was partly offset by a decrease in corporate results from group holding companies.

In 2003, Pargesa recorded non-operating earnings of SF24 million, compared with a loss of SF301 million in 2002. The 2003 non-operating income reflects in particular Pargesa's share of the gain recorded by Bertelsmann on the sale of the specialty magazine group BertelsmannSpringer and on the sale of its interest in barnesandnoble.com, net of non-recurring charges. In 2002, the loss consisted primarily of Pargesa's share of an adjustment recorded by Bertelsmann in the carrying value of its interest in Zomba Music Group.

PARGESA HOLDING S.A.

DECEMBER 31 [IN MILLIONS]	2003		2002	
AS REPORTED BY PARGESA	SF	$[1]	SF	$[1]
Operating earnings	192	200	176	178
Goodwill amortization [2]	(8)	(9)	(8)	(9)
Non-operating earnings [3]	24	25	(301)	(304)
Net earnings	208	216	(133)	(135)

[1] Average Swiss franc to Canadian dollar: 1.0418 in 2003 and 1.0112 in 2002.

[2] Goodwill recorded by holding companies (Pargesa and GBL) on their direct investments.

[3] Including Pargesa's share of non-operating earnings recorded by companies accounted for under the equity method.

BERTELSMANN was affected in 2003 by the weakness of the U.S. dollar against the Euro. This primarily affected Random House and BMG. The outset of a global economic recovery observed during the year differed greatly by geographic region. While the U.S. economy recovered appreciably, especially in the second half of the year, the Euro region was slow to follow suit, in Germany in particular, where the economy remained quite stagnant.

Despite a difficult environment, operating EBITA increased 20 per cent over 2002 to €1,123 million ($1,777 million), while operating return on sales improved from 5.1 per cent to 6.7 per cent. Major contributors to this increase were RTL Group, Arvato and DirectGroup. Total revenues for the year declined 8.3 per cent to €16.8 billion ($26.6 billion). Adjusted for currency and portfolio impacts, the total group revenues remained quite stable as compared to 2002.

In addition, Bertelsmann recorded capital gains of €620 million ($981 million) in 2003 primarily on the disposal of BertelsmannSpringer, the specialist publishing group, and of its position in barnesandnoble.com and of the group's Eastern European newspaper businesses. The results of the year were also affected by restructuring charges recorded at BMG, primarily as a result of the integration of the Zomba Music Group acquired in 2002, and by a €234 million ($370 million) provision for a lawsuit from two former employees of AOL Germany against Bertelsmann. Bertelsmann has taken no reserve with respect to a legal action instituted against it in connection with Napster. Bertelsmann is of the view that the action is without merit. Net income was €154 million ($244 million) for the year, compared with €928 million ($1,376 million) in 2002, which included significant capital gains. Net financial debt was reduced from €2.7 billion ($4.5 billion) in 2002 to €0.8 billion ($1.3 billion) at the end of 2003.

TOTAL performed well in 2003, benefiting from a 5 per cent increase in its production of oil and the impact of synergy and productivity programs adopted at the time of the merger of Totalfina with Elf. This brought net operating earnings, excluding non-recurring items, to €7.3 billion ($11.5 billion), up 17 per cent from 2002, representing on the same basis a 23 per cent increase in earnings per share due to a substantial share buy-back program.

The results for 2003 were significantly affected by the fall of the U.S. dollar against the Euro, the currency used by Total to report its financial statements. Expressed in dollars for purposes of comparison with other major oil companies, net earnings per share, excluding non-recurring items, rose 47 per cent, one of the best performances in the industry. Net income for the year, including non-recurring items, amounted to €7.0 billion ($11.1 billion), up 18 per cent from 2002.

SUEZ posted revenues of €39.6 billion ($62.7 billion) almost unchanged compared with 2002, despite assets disposals. Ninety per cent of 2003 revenues were generated in Europe and in North America, 80 per cent of which came from Europe. Organic growth, on the basis of the constant exchange rate and group structure, was 6.1 per cent, driven by all business sectors.

EBITDA totalled €6.0 billion ($9.5 billion), a decrease of 17.1 per cent compared to 2002. On a constant exchange rate and group structure basis EBITDA increased by 4.9 per cent. The energy sector contributed €4.0 billion ($6.3 billion), a decrease of 3 per cent; on a comparable basis, EBITDA from this sector increased by 8.3 per cent. The EBITDA from the environment sector increased 4.7 per cent on a comparable basis, but decreased substantially when taking into account the unfavourable foreign exchange fluctuations and the major disposals made in 2003, particularly Nalco, Northumbrian and Cespa.

The group's income was affected by the implementation of the 2003-2004 Action Plan, the principal objectives of which are the strengthening of its financial structure and the improvement in the return on capital. In addition to the disposals in the environment sector mentioned above, the group withdrew from the communications sector, disposed of several of its non-strategic assets and cancelled insufficiently profitable contracts. These steps reduced net debt from €26 billion ($43 billion) in 2002 to €15 billion ($24 billion) at year-end 2003 and to €13.9 billion ($22.6 billion) by the end of February 2004.

IMERYS Despite highly adverse conditions, including a weaker dollar and rising energy costs, Imerys improved its main financial indicators in 2003. Net operating income grew for the twelfth consecutive year and the operating margin continued to rise, reaching 13.6 per cent as compared with 12.6 per cent in 2002. Financial debt was reduced further, from 78.8 per cent of shareholders' equity at the end of December 2002 to 69.9 per cent in 2003. This performance was driven by increasing sales after two difficult years, positive changes in the price/product mix ratio, the effect of ongoing programs to reduce production costs and lower net financial expenses.

In Pigments for Paper, global demand for printing and writing paper showed a modest recovery in 2003, but with strong geographical disparities. In Specialty Minerals, market demand also varied, improving in the construction and floor tile segments but sluggish in tableware and automobile markets. In Refractories, many end markets continued to perform poorly, particularly in metallurgy, and conditions were difficult for the Abrasives segment as well. For the Building Materials segment, the French terracotta tile market grew in 2003 with expanding renovation activities, while terracotta products continued to gain ground against concrete products.

Net income for Imerys was €160 million ($253 million), an increase of 12 per cent over 2002.

LOOKING TO THE FUTURE

The Pargesa group plans to continue to centre its activities on a small number of large European companies and to focus on their strategic development.

BREAKDOWN OF NET EARNINGS OF PARGESA [FLOW-THROUGH BASIS]

AS OF AND FOR THE YEARS ENDED DECEMBER 31 [IN MILLIONS OF SWISS FRANCS[1]]

	CUMULATIVE EQUITY INTEREST	PARGESA'S ECONOMIC INTEREST	CONTRIBUTION TO PARGESA'S EARNINGS 2003	2002
	%	%		
Contribution from principal holdings				
Equity accounted				
Imerys [industrial]	53.5	39.6	118	101
Bertelsmann [media and entertainment]	25.1	12.0	(5)	(14)
Non-consolidated				
Total [energy]	3.6	1.7	72	65
Suez [energy, water, waste services]	7.2	3.5	38	38
			223	190
Other holdings			3	8
Operating earnings from holding companies			(34)	(22)
Operating earnings before goodwill amortization			192	176
Goodwill amortization [2]			(8)	(8)
Non-operating earnings			24	(301)
Net earnings in Swiss francs			208	(133)
Net earnings in Canadian dollars [3]			217	(135)

[1] Earnings as shown in the table are those reported by Pargesa, and do not include adjustments made by Power Financial to conform with Canadian GAAP.

[2] Goodwill amortization refers to the goodwill amortization recorded by holding companies on their investments.

[3] Average Swiss franc to Canadian dollar: 1.0418 in 2003 and 1.0112 in 2002.

SUMMARY OF FINANCIAL DATA

1 – SELECTED ANNUAL INFORMATION

FOR THE YEARS ENDED DECEMBER 31 [IN MILLIONS OF DOLLARS, EXCEPT PER SHARE AMOUNTS]	2003	2002	2001
Revenues	15,369	18,603	17,861
Operating earnings before other items [1]			
in millions of dollars	1,261	1,074	906
per share – basic	3.43	2.97	2.53
Net earnings [2]			
in millions of dollars	2,023	988	879
per share – basic	5.62	2.72	2.44
per share – diluted	5.56	2.68	2.41
Consolidated assets	105,960	68,319	67,069
Consolidated assets and assets under administration [3]	242,333	172,815	180,980
Consolidated long-term liabilities			
Long-term debt	4,198	2,313	2,437
Shareholders' equity	8,137	6,855	5,828
Book value per share	19.77	16.73	14.65
Number of common shares outstanding [millions]	348.4	346.9	346.7
Dividends per share [declared]			
Common shares	1.2050	1.0400	0.8800
First preferred shares [4]			
Series A	0.8208	0.7341	1.0513
Series C	1.3000	1.3000	1.3000
Series D	1.3750	1.3750	1.3750
Series E	1.3125	1.3125	0.22654
Series F	1.4750	0.8012	–
Series H	1.4375	0.20873	–
Series I	1.3305	–	–
Series J	1.0422	–	–

[1] Operating earnings and operating earnings per share are non-GAAP financial measures. Please refer to comments previously made in this report.

[2] Net earnings include other income in addition to operating earnings and, in 2001, direct and indirect goodwill amortization expense of $107 million or $0.31 per share (goodwill is no longer amortized since 2002) as well as the Corporation's share of specific items recorded by Lifeco for $189 million or $0.55 per share.

[3] Assets under administration include segregated funds of Lifeco and Investors Group's mutual fund assets, at market values. The market value of Lifeco's segregated funds was $62 billion in 2003, $36 billion in 2002 and $39 billion in 2001; the increase in 2003 includes the impact of the acquisition of Canada Life. Investors Group's mutual fund assets include those of Mackenzie, which was acquired in 2001; mutual fund assets were $75 billion in 2003, $68 billion in 2002 and $75 billion in 2001.

[4] The Series B, First Preferred Shares were redeemed in May 2003.

2 – SUMMARY OF QUARTERLY RESULTS

[IN MILLIONS OF DOLLARS, EXCEPT PER SHARE AMOUNTS]	2003				2002			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
SELECTED QUARTERLY INFORMATION								
Revenues	4,794	4,445	(59)	6,178	4,821	4,156	4,912	4,714
Operating earnings								
in millions of dollars	263	325	319	354	237	297	272	268
per share – basic	0.71	0.88	0.87	0.96	0.65	0.83	0.75	0.74
Other income								
in millions of dollars	(10)	–	808	(36)	–	–	(62)	(24)
per share – basic	0.03	–	2.32	(0.10)	–	–	(0.18)	(0.07)
Net earnings								
in millions of dollars	253	325	1,127	318	237	297	210	244
per share – basic	0.68	0.88	3.19	0.86	0.65	0.83	0.57	0.67
per share – diluted	0.68	0.87	3.15	0.85	0.65	0.82	0.56	0.66

EARNINGS – FOURTH QUARTER OF 2003 Operating earnings for the fourth quarter of 2003 were $354 million or $0.96 per share, compared with $268 million or $0.74 per share for the same period in 2002. The contribution from subsidiaries and affiliate to operating earnings increased by 36 per cent from $271 million to $369 million, mainly driven by higher contributions from Lifeco and Investors Group.

Other income was a charge of $36 million or $0.10 per share in the fourth quarter of 2003, compared with a charge of $24 million or $0.07 per share in the fourth quarter of 2002.

As a result, net earnings for the quarter were $318 million or $0.86 per share, compared with $244 million or $0.67 per share in the fourth quarter of 2002.

BASIS OF PRESENTATION AND SUMMARY OF ACCOUNTING POLICIES

The consolidated financial statements of the Corporation, which are the basis of information presented in the MD&A, have been prepared in accordance with Canadian GAAP and presented in Canadian dollars, as in previous years. (Please refer to Note 1 to the financial statements.)

INCLUSION OF PARGESA'S RESULTS

Through its wholly owned subsidiary, Power Financial Europe B.V., Power Financial holds a 50 per cent interest in Parjointco, which at December 31, 2003 held an approximate 54.4 per cent equity interest in Pargesa. The Pargesa portfolio is primarily made of investments in four large European operating companies, which are held by Pargesa directly or through its affiliated Belgium holding company, GBL. These four companies are Imerys, in which Pargesa and GBL held at year-end 2003 a 27.1 per cent and a 26.4 per cent equity interest, respectively; Bertelsmann, in which GBL held a 25.1 per cent equity interest; Suez and Total, in which GBL held a 7.2 per cent and a 3.6 per cent interest, respectively. Pargesa, GBL, Imerys, Bertelsmann, Suez and Total are subject to disclosure and accounting standards which vary according to their jurisdiction and applicable law. Pargesa's financial statements are prepared in accordance with Swiss generally accepted accounting principles, financial statements of GBL and Bertelsmann are prepared in accordance with International Financial Reporting Standards ("IFRS") and Imerys' financial statements are prepared in accordance with French generally accepted accounting principles. Pargesa and Imerys have announced they expect to adopt IFRS for financial reporting purposes in 2005.

Pargesa's financial results are not consolidated within Power Financial's financial statements, but accounted for using the equity method. The indirect interests in Suez and Total are shown at cost in GBL's financial statements.

In preparing its financial statements, Power Financial has used accounting information received from Pargesa, which is intended to be the same in all material respects as that which would have been produced under IFRS standards on an ongoing basis.

FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

A discussion of the Corporation's Financial Position, Liquidity and Capital Resources is included on pages 81 to 84 of the MD&A. The respective sections of the MD&A relating to Lifeco and Investors Group also contain disclosure concerning these matters with respect to each of these subsidiaries.

In addition, the following table provides a summary of future consolidated contractual obligations:

		PAYMENTS DUE BY PERIOD			
[IN MILLIONS OF DOLLARS]	TOTAL	LESS THAN 1 YEAR	1-3 YEARS	4-5 YEARS	AFTER 5 YEARS
Long-term debt [1]	4,198	1	327	598	3,272
Operating leases [2]	735	157	240	158	180
Contractual commitments [3]	327	312	15	–	–
Purchase obligations [4]	22	11	11	–	–
Total	5,282	481	593	756	3,452
Letters of credit [5]					

[1] Please refer to Note 9 to the financial statements for further information.

[2] Includes office space and certain equipment used in the normal course of business. Lease payments are charged to operations in the period of use.

[3] Represents commitments by Lifeco. These contractual commitments are essentially commitments relating to investment transactions made in the normal course of operations in accordance with Lifeco's policies and guidelines, that are to be disbursed upon fulfillment of certain contract conditions.

[4] Purchase obligations primarily represent commitments to acquire goods and services.

[5] A Letter of Credit (LOC) is a written commitment provided by a bank to a beneficiary on behalf of a client (applicant) of the bank. Under a LOC, the issuing bank, in accordance with the terms and conditions specified by the applicant, will accept or pay drafts drawn by the beneficiary against the LOC. In the event that an amount is drawn by the beneficiary, the bank will make a payment to the beneficiary for the amount drawn and the applicant will become obligated to repay this amount to the bank. Lifeco, through certain of its operating subsidiaries, provides LOCs in the normal course of business In order to conduct reinsurance business in the U.S., London Reinsurance Group (LRG), as a non-U.S. licensed reinsurer, must provide collateral to U.S. insurance companies in order for these companies to receive statutory capital credit for reserves ceded to LRG. To satisfy this collateral requirement, LRG, as applicant, has provided LOCs issued by a syndicate of financial institutions. The aggregate amount of this LOC facility is US$1,100 million, and the amount issued at December 31, 2003 was US$925 million. On January 5, 2004, the amount issued was reduced to US$818 million. Refer to Note 23 of the 2003 financial statements. At December 31, 2003, the Canada Life Assurance Company (Canada Life) as applicant has provided LOCs relating to business activities conducted within the Canada Life group of companies in respect of the following:

- to its U.S. branch as beneficiary, to allow Canada Life to receive statutory capital credit for life reinsurance liabilities ceded to Canada Life Ireland Re. (US$241 million);
- to Canada Life Ireland Holdings Limited (CLIHL) as beneficiary, to allow statutory capital credit in the U.K. for a loan made to The Canada Life Group (UK) Limited (£117 million); and
- to a U.S. regulator as beneficiary on behalf of its U.S. branch, to receive statutory capital credit for certain reinsurance liabilities ceded to third-party non-U.S. licensed reinsurers (US$112 million).

SUMMARY OF CRITICAL ACCOUNTING POLICIES

The Corporation's general accounting policies are described in detail in Note 1 to the financial statements. A specific discussion of certain major accounting policies – Actuarial Liabilities, Income Taxes and Employee Future Benefits, which require the use of estimates, has been provided in the section "Summary of Critical Accounting Policies" on page 85 of the MD&A.

Accounting estimates are also used in particular with respect to the following items:

- impairment tests on goodwill and intangible assets (refer to Note 1 to the financial statements), which involve the use of estimates and assumptions appropriate in the circumstance;
- deferred selling commissions. As described in Note 1 to the financial statements, commissions paid by Investors Group on the sale of certain mutual fund products are deferred and amortized over a maximum period of seven years. Prior to April 1, 2001, the maximum period for amortization was three years. Investors Group changed the period of amortization to reflect a more accurate estimate of their useful life; this estimate is also consistent with that used by Mackenzie. Investors Group regularly reviews the carrying value of the deferred selling commissions.

FUTURE ACCOUNTING CHANGES

As described on page 85 of the MD&A and in Note 1 to the financial statements, amended Section 3870 – *Stock-based Compensation and Other Stock-based Payments* and Accounting Guideline 13 – *Hedging Relationships* became effective on January 1, 2004. In addition, Accounting Guideline 15 – *Consolidation of Variable Interest Entities* and Section 3860 – *Financial Instruments, Disclosure and Presentation* will become effective January 1, 2005. The Corporation will review the potential impact that these new accounting requirements may have on the financial statements of the Corporation.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

The following table presents the carrying value and the fair value of on-balance sheet financial instruments (please refer to Note 19 to the financial statements), as well as the fair value of derivative financial instruments (please refer to Note 20 to the financial statements):

[IN MILLIONS OF DOLLARS]	2003		2002	
	BOOK VALUE	FAIR VALUE	BOOK VALUE	FAIR VALUE
ASSETS				
Cash and cash equivalents	3,646	3,646	2,437	2,437
Investments [excluding real estate]	79,463	81,858	49,849	52,023
Other financial assets	6,350	6,350	6,113	6,113
Total financial assets	89,459	91,854	58,399	60,573
LIABILITIES				
Policy liabilities	71,498	74,243	48,296	50,484
Deposits and certificates	729	738	709	718
Long-term debt	4,198	4,444	2,313	2,410
Other financial liabilities	10,641	10,641	3,643	3,643
Total financial liabilities	87,066	90,066	54,961	57,255
DERIVATIVE FINANCIAL INSTRUMENTS		283		(86)

Fair value is determined using the following methods and assumptions:

- the fair value of temporary financial instruments is assumed to be equal to book value due to their short-term maturities. These include cash and cash equivalents, dividends and interest receivable, and premiums in the course of collection;
- the fair value of shares and bonds is valued at quoted market prices, when available. When a quoted market price is not readily available, alternative valuation methods may be used;
- the fair value of mortgage loans is determined by discounting the expected future cash flows at market interest rates for loans with similar credit risk;
- the fair value of policy liabilities is based on the fair value of the assets of Lifeco supporting them;
- the fair value of deposit liabilities is determined by discounting the contractual cash flows using market interest rates currently offered for deposits with similar terms and credit risks;
- the fair value of long-term debt is determined by reference to current market prices for debt with similar terms and risks; and
- the fair value of derivative financial instruments is based on quoted market prices, when available, prevailing market rates for instruments with similar characteristics and maturities, or net present value analysis.

RISKS The section relating to Lifeco on pages 96 and 97, under the heading *Risk Management and Control Practices*, contains disclosure concerning certain developments with respect to:

- risks associated with policy liabilities;
- risks associated with invested assets;
- risks associated with the investment fund business; and
- integration of Canada Life.

Lifeco's consolidated operations provide a broad business platform that is well diversified in terms of both the nature of the various businesses and the geographic locations in which these businesses are conducted. In 2003, Lifeco earned fee income of $1,831 million related to businesses involving the provision of investment management and other fee-based services. Included in this amount were $699 million in fees for managing segregated funds, of which approximately 70 per cent of these funds relate to managing equity-type segregated funds. The level of fee income derived in connection with the management of equity-type segregated funds is sensitive to prevailing equity market conditions. Accordingly, movements in equity market levels will produce variability in the level of investment management fees derived from this type of business.

The degree of geographic diversification in Lifeco's business operations creates exposure to fluctuations in foreign currency. To address potential volatility in the operating results, Lifeco's management has followed the practice of executing forward foreign currency contracts to hedge operating results denominated in foreign currency. This existing risk management program is being extended to include new foreign currency exposures assumed in connection with the acquisition of CLFC.

As of December 31, 2003, all of GWL&A's estimated U.S. dollar exposure for 2004 had been hedged at $1.5683, and approximately 25 per cent of GWL&A's estimated U.S. dollar exposure for 2005 had been hedged at $1.5526. In addition, approximately two-thirds of CLFC's estimated pound sterling exposure for 2004 had been hedged at $2.2739.

SELECTED ANNUAL INFORMATION – SUMMARY OF QUARTERLY RESULTS

Pages 114 and 115 of the MD&A provide selected financial information with respect to Power Financial, in tabular form for each of the three most recently completed years and the eight most recently completed quarters (ending December 31, 2003).

SELECTED ANNUAL INFORMATION Page 114 contains selected annual information relating to the Corporation. As of the date of the MD&A (April 2, 2004) the number of Common Shares outstanding was 352,326,840, due to the exercise of stock options since January 1, 2004.

Two major transactions were completed during the period. Investors Group acquired Mackenzie on April 21, 2001, and the operations of Mackenzie have been included in the financial statements from that date. In addition, as described elsewhere in this MD&A, on July 10, 2003, Lifeco acquired CLFC and the operations of CLFC have been included from that date.

SUMMARY OF QUARTERLY RESULTS Certain reinsurance transactions, which are described more fully in the MD&A on page 115 and in Note 14 to the financial statements, were entered into by Great-West Life, London Life and GWL&A in 2003. The effect of these transactions is included in the decrease in revenues of the third quarter 2003 compared to other quarters.

As discussed in more detail on page 115 of the MD&A, the contribution from Lifeco to operating earnings of Power Financial for the third and fourth quarters of 2003 includes the effects of the acquisition of CLFC by Lifeco and the additional contribution provided by the additional shares of Lifeco acquired during the year, net of related financing costs. The one-time net dilution gain recorded by Power Financial in the third quarter, and the impact of the restructuring charges expensed in the third and fourth quarters by Lifeco in connection with its acquisition of CLFC, as described in Note 16 to the financial statements, are included in other income.

The contribution from Pargesa to second quarter operating earnings of Power Financial included (in 2002 and 2003) the impact of annual dividends received from Total and Suez, which are carried at cost as well as Pargesa's share of the preferred dividend received from Bertelsmann.

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